

DANVILLE

CITY GOVERNMENT



COMPREHENSIVE ANNUAL FINANCIAL REPORT



*“A WORLD CLASS
ORGANIZATION”*

**FOR THE FISCAL YEAR
JULY 1, 2003 TO JUNE 30, 2004**

CITY OF DANVILLE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
June 30, 2004

Prepared by:

The Department of Finance



**City of Danville
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2004**

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INTRODUCTORY SECTION



City of Danville Virginia

"A World Class Organization"

December 8, 2004

To the Honorable Mayor, Members of the City Council, and the Citizens of the City of Danville:

State law requires all general-purpose local governments to file, annually with the Auditor of Public Accounts, a detailed statement prepared according to the Auditor's specifications showing the amount of revenues, expenditures, and fund balances of the locality for the preceding fiscal year, accompanied by the locality's audited financial report. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report of the City of Danville for the fiscal year ended June 30, 2004.

The Comprehensive Annual Financial Report consists of management's representations concerning the finances of the City of Danville. The financial reporting entity includes all of the funds of the City, as well as all of its component units for which the City is financially accountable. Management assumes full responsibility for the completeness and reliability of all the information presented in this report. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the City of Danville. All disclosures necessary to enable the reader to gain an understanding of the City of Danville's financial activities have been included.

Goodman and Company, licensed certified public accountants, has audited the City of Danville's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. Tests were made of the City's internal control structure and of its compliance with applicable laws and regulations. The audit of the financial statements of the City of Danville for the fiscal year ending June 30, 2004 disclosed no material internal control weaknesses or material violations of laws and regulations.

The City of Danville is required to undergo an annual single audit in conformity with the provisions of the Single Audit Amendments of 1996, U. S. Office of Management and Budget's Circular A-133, and the specifications of *Audit of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Information related to this single audit, including a schedule of expenditures of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and

regulations, and a schedule of findings and questioned cost are included in the single audit section of this report.

Governmental Accounting Standards Board Statement No. 34 requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The purpose of the transmittal letter is to compliment the MD&A and should be read in conjunction with it. The City's MD&A starts on page 20 of this report.

Profile of the Government

The City of Danville was founded in 1793, chartered in 1830, and is located on the Dan River in the southern part of the state. The City covers an area of approximately 44 square miles and has a population of approximately 46,600.

A council-manager form of government operates the City of Danville. Policymaking and legislative authority is vested in the City Council, which consist of nine members including a mayor and vice-mayor. Council members are elected at large on a non-partisan basis to serve four-year terms. The elections are held biennially with five members being elected in one biennium and four in the next. Members of the council elect the mayor and vice-mayor from its membership. The City Council is responsible for passing ordinances, adopting the budget, appointing committee and board members, and hiring the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of City Council, overseeing the day-to-day operations of the City, and appointing department heads.

The City provides a full range of services including police and fire protection; sanitation services; the construction and maintenance of highways, streets, and infrastructure; recreational activities; and cultural events. In addition to the general government activities, the City provides mass transit, water and wastewater treatment, gas, and electric services. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the primary government and to differentiate their financial position and results of operations and cash flows from those of the primary government. They are the Danville School Board, the Industrial Development Authority, and the Danville Development Council.

The City of Danville's annual budget serves as the foundation for financial planning and control. The object of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Departments are required to submit requests for appropriations to the Budget Director by mid-January of each year. The Budget Director uses these requests as a starting point for developing a work budget. The Budget Director then presents this work budget to the City Manager. Once the City Manager approves the work budget, he presents it to the City Council by April 1st for review and deliberation. After City Council's approval, an introduction budget is prepared and presented to them by May 1st. The introduction budget contains all of the changes and amendments made by the City Council during its budget workshops. It is the introduction budget that is submitted for public hearing. City Council is required to adopt a final budget by June 30th each year.

Activities of the General Fund are included in the annual appropriations budget. Project-length budgets are adopted for management control for the Enterprise and Internal Service Funds. The City Manager has the authority to transfer appropriations within funds. Inter-fund transfers and appropriations from fund balance/net assets require City Council approval. The General Fund is the only governmental fund that has a legally adopted budget; therefore, a budget-to-actual comparison is provided.

Local Economy

Danville is currently experiencing high unemployment rates (June 2004 – 12.3%, down to 7.7% October 2004). Historically, Danville's economy has been based on textiles and tobacco. Both industries have suffered in recent years due to automation (textiles), health issues (tobacco), and globalization. This past year, Dan River Inc. (textiles) filed for Chapter 11 Bankruptcy. Dimon Inc. (tobacco) announced the closing of its Danville plant. Despite the negative impact of these losses, the City has made great strides with economic development.

Five years ago, the City eliminated economic development as a function of an outside agency and created a City Economic Development Department under the oversight of the City Manager. Since that time, the City has taken an aggressive approach to attract new industries. Danville offers some of the most innovative incentives and business development programs in the nation to new and existing businesses. In addition, the City and Pittsylvania County's regional economic development efforts emphasize an environment aimed at promoting new industries while maintaining their support of existing industries.

Over the previous 12 months, the City recruited 1,419 new jobs. Some of the City's most recent success stories are:

- Essel Propak announced it would invest \$10.4 million to expand its laminated tube operation. This expansion will result in the creation of 50 new full-time jobs over the next year. Essel Propak manufactures toothpaste tubes for Proctor & Gamble.
- Boscov's Department Store announced the opening of its newest store in the Piedmont Mall in the fall of 2005. The opening will bring 350 retail jobs. Boscov's is a large-scale department store.
- Telvista will invest \$1.5 million to open a call center in Danville. The call center will create 540 new jobs in the area.
- Luna Innovations announced it would convert a vacant tobacco warehouse in the downtown area into a manufacturing facility for nanotechnology. Nanotechnology is the process of making products more efficient and precise with applications in the defense and aerospace fields. Luna Innovations will create 54 jobs for the area in 2006 and will help position Danville on the cutting-edge of new technology.

The Institute for Advanced Learning & Research (IALR) officially opened in June 2004. The IALR represents a regional collaboration of the City of Danville, Pittsylvania County, The Future of the Piedmont Foundation, Averett University, Danville Community College,

and Virginia Tech. The Institute serves as a catalyst for economic and community transformation through developing the technologies, human infrastructures, and capital necessary to participate in the innovation economy. Virginia Tech is committed to developing six centers of unique research: robotics, motor sports, advanced polymers, biodefense, high-value horticulture and forestry, and toxicogenomics. The Institute also serves as a focal point for the development of regional information technology infrastructure and as a home for cutting-edge voice, data, video, and multimedia technologies. Virginia Tech, Averett University, and Danville Community College are committed to offering courses and programs of study at the Institute that focus on developing an innovative, high-tech workforce. More information on the Institute and Danville's Economic Development Incentive Programs can be found at www.discoverdanville.com.

Long-term Financial Planning

The City prepares a five-year Capital Improvement Plan (CIP), with the first year funding appropriated and the remaining four years for planning purposes only. The current plan is funded on a pay-as-you-go basis and does not require the issuance of long-term debt. The City takes advantage of refinancing current debt when a substantial debt service savings can be obtained. In fiscal year 2003-2004, the City refinanced \$22,315,000 of outstanding debt with \$23,490,000 of new debt resulting in a net cash flow savings of \$1,445,413.

The 2004-2005 budget calls for contributions for capital improvements as follows: General Fund Capital Improvements of \$2,480,868; Sewer and Wastewater Capital Improvements of \$1,180,000; Water Capital Improvements of \$450,000; Gas Capital Improvements of \$1,040,000; and Electric Capital Improvements of \$2,315,000.

A regional effort has resulted in the organization of the Danville-Pittsylvania Regional Industrial Facility Authority (The Facility Authority). The Facility Authority has created an approximately 300-acre technology park anchored by the Institute for Advanced Learning and Research (IALR) and the Regional Center for Applied Technology and Training. The park, called the Cyber Park, has state-of-the-art infrastructure for unparalleled reliability including a High Reliability Distribution System.

In 2002, the Facility Authority issued \$14 million in revenue bonds to finance the construction of The Institute for Advanced Learning and Research. The City and County, annually, contribute \$1 million each from their tobacco indemnification and community revitalization funds for debt service payments. The infrastructure had a budget of \$4 million, of which \$2.3 million was funded by grants. The City provided the additional funding needed for the utility infrastructure and received all revenue generated from utility services. For more information on the Institute, refer to the previous section of this letter entitled "Local Economy".

Funding has been approved for construction of a Research and Development Annex. The construction is scheduled to begin May 2005. This annex building will be an approximately 36,000 sq. ft. research and development facility. The facility will provide wet-lab and office space to be leased to private sector businesses engaged in activities related to programs sponsored by The Institute for Advanced Learning and Research. Examples of strategic research programs already underway include: the first of its kind research and testing

center for autonomously and semi-autonomously controlled air and ground military vehicles; and combining biotechnology and tissue culture labs, with greenhouses and bioinformatics, to develop high value horticultural alternatives to tobacco. This five million dollar facility will receive aid from an Economic Development Administration grant and tobacco indemnification and community revitalization commission funds.

The Facility Authority plans to develop the Cane Creek Centre (formerly referred to as Danville/Pittsylvania County Regional Industrial Park). The City's 2004 CIP includes \$2,400,000 for construction of the Cane Creek pump station and force main. This project is designed to provide an 800,000 gal/day total capacity, with 600,000 gal/day reserved for the new Cane Creek Centre. Sources of funds for this project are derived from a \$1,000,000 Special Project Tobacco Commission allocation, City and County annual Tobacco allocations, and Sewer Fund Balance.

The City of Danville has completed Network Danville, a sophisticated fiber optic broadband network over which digital data, voice, and video signals can be transmitted from point to point in Danville at very high speeds, as well as to and from world-wide locations via the internet. The municipal area network is anchored at the eDan Multimedia Service Access Point (MSAP) located at the Galileo Magnet High School. Network Danville connects from there to MCI's high-tier national internet backbone. Fiber optic cables radiate from the MSAP to schools, municipal buildings and facilities, and utility infrastructure components at approximately 100 locations over a 70-mile route. Network Danville shares cabling with the Future of the Piedmont's "eDan" to the north and with the Mid-Atlantic Broadband Coalition's "e58" to the east and west. Network Danville's funding came from the Electric capital improvements fund and the Danville Public School System.

Danville is also committed to preserving and increasing the quality of life for our citizens. The Crossing at the Dan, located in the City's Tobacco Warehouse District, has been a significant revitalization story. Beginning in 1994, this area was transformed from a blighted area to a popular entertainment destination. Danville's historic train station was refurbished to house the Danville Science Center and Amtrak station. A former freight warehouse was converted into a new home for the community market as well as attractive space for banquet rentals. Other components at the Crossing ensure its popularity and include a trail system and an outdoor amphitheater referred to as the Carrington Pavilion.

The expansion and relocation of the Danville Science Center and the Estelle Womack Museum of Natural History are scheduled for completion in the spring of 2005. A large new addition, adjoining the former Southern Railway Administration offices, will become the new home of the Danville Science Center. After renovation work is complete, the Danville Train Station will become the new home of the Estelle Womack Museum of Natural History, as well as serving Amtrak. The many projects at the Crossing have been funded from public and private sources of special note and the many TEA-21 awards received from the Virginia Department of Transportation.

In October of 2003, the City learned that it would be a recipient of the HUD Brownfield Economic Development Initiative/Section 108 program for the redevelopment of a building at the Long Mill site. The Long Mill proposal involves the redevelopment of a number of vacant Dan River Inc. old mill buildings situated along the Dan River in downtown Danville. This significant undertaking has attracted a strong private development team made up of

primarily local individuals. In partnership with the City, the project will have a major impact on the community.

Substantial redevelopment projects are being undertaken in the downtown area. Danville, as a Main Street Community, is positioned to achieve results and move forward the revitalization of downtown. The Tobacco Warehouse District and the Downtown Historic District are working together to bring changes to the downtown area. The façade program is largely responsible for the revitalization of these two districts. The façade program is a local incentive where the City matches dollar for dollar up to \$30,000 for façade renovations. In the last year, 22 storefronts and 60 buildings have participated in the façade program.

There are numerous local, state, and federal incentives available for businesses to locate in the Downtown Historic District or in the Tobacco Warehouse District. The City successfully completed the first building in our Lease Back Program, the Butler building. The Lease Back Program is a creative incentive given to absentee building owners for the renovation of their buildings. River City Center (former Belk building) participated in the City's façade program receiving \$120,000 of a total \$277,000 façade renovation to kick-start the revitalization of downtown. Luna Innovations will be bringing a nanotechnology materials manufacturing plant to Danville's Tobacco Warehouse District. Luna is the first company in the world to make these unique nanomaterials available for commercial sale.

The Utility Department is currently conducting rate studies for the City's Utilities. During the past seven years, the base rates for the City's Utilities have not been adjusted for fixed cost or inflation. The only adjustments to the utility rates have been for fluctuations in the commodity cost. The studies should be completed during the current fiscal year (2004-2005), with significant rate increases expected beginning in the next fiscal year (July 2005). Based on information available at this time, management is considering recommending a 20% increase in Wastewater and Water rates and a 10% increase in Gas rates. The majority of this increase is attributed to reduced consumption by Dan River Inc. and Masonite, causing fixed cost to be spread over other parts of the consumption base. While management recommends these increases, they are subject to approval from City Council. In addition to these rate increases, Danville's contract for the purchase of electric power expires July of 2005. The present, very favorable contract has enabled Danville to have rates among the least expensive in the nation.

Although faced with significant rate increases, rates will still be competitive within the State; however, some areas may have lower rates. In September 2004, the City signed a one-year wholesale electric power contract with American Electric Power. This new contract will increase the wholesale cost of power by 77.3% and have significant effects upon the rates of our consumers. Despite the significant rate increase, Danville's rates will still be lower than those paid for comparable services in surrounding communities.

The City utilizes natural gas price hedging during the winter months to stabilize the cost of gas that is charged to its citizens. Hedge contracts are used to lock in the price of gas at a negotiated price that the City believes to be lower than the market price will be at the time the gas purchase will be needed. During the year ended June 30, 2004, the City purchased contracts totaling \$4,053,000 of which they sold \$1,241,000. This sale created

a gain of \$241,650 that was used to offset the cost of gas during the period. There were no outstanding hedge contracts at June 30, 2004.

Cash Management Policies and Practices

Cash temporarily idle during the year (for all funds except the Employees' Retirement System and unexpended bond funds) is invested in U.S. Agency obligations and the Local Government Investment Pool, a pool administered by the State Treasurer. The maturities of the investments range from one day to five years. Unexpended bond funds are invested utilizing the State Non-Arbitrage Program administered by the State Treasurer.

Risk Management

During the 1986-87 fiscal year, City Council established an Insurance Fund to provide for payment of premiums, cost of self-insured claims, and to accumulate resource funds for catastrophic losses and future claims. The fund balance of the Insurance Fund at June 30, 2004 was \$4,129,323.

The City of Danville has coverage in force for the more significant risk areas with the exception of workers' compensation. The workers' compensation outstanding liability at June 30, 2004 was \$1,959,800. The City's general liability, automobile, public officials' liability, and law enforcement liability are provided through participation in the Virginia Municipal Liability Pool. For the year ended June 30, 2004, the City used a combination of in-house staff and third party administrators to manage its risk programs.

Pension and other Post Employment Benefits

The City of Danville participates in two public employee retirement systems, the Employees' Retirement System of the City of Danville (ERS) and the Virginia Retirement System (VRS). The City makes all contributions to both plans.

ERS acts as an administrator of a single employee defined benefit pension plan. The ERS' Board of Trustees, based on actuarial estimates of future plan benefits to be paid, provides the contribution requirements for consideration by City Council. The majority of City employees are covered by ERS. Constitutional employees of the City and employees of the Danville School Board are covered by VRS.

Additional information concerning both retirement plans can be found in Note 11 of the Notes to the Financial Statements.

Awards and Acknowledgements

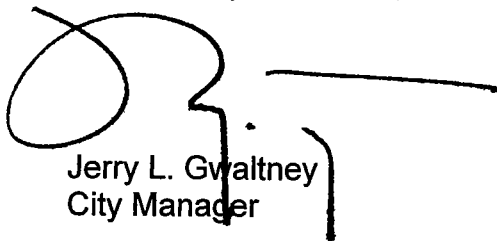
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Danville for its Comprehensive Annual Financial Report (CAFR), for the fiscal year ended June 30, 2003. This was the eighteenth consecutive year the City of Danville has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial

Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.


A Certificate of Achievement is valid for a period of one year. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirement, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The timely preparation for this Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for their assistance and contributions in the preparation of this report. Credit must also be given to the leadership of the governing City Council and their support for maintaining sound financial management.

Respectfully submitted,



Jerry L. Gwaltney
City Manager



Aubrey D. Dodson
Director of Finance



Barbara A. Dameron
Deputy Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Danville,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

CITY OF DANVILLE
OFFICIAL DIRECTORY

CITY COUNCIL

John C. Hamlin
Mayor

Peter A. Castiglione

Albert K. Rawley

T. David Luther

R. Wayne Williams
Vice Mayor

E. Stokes Daniels, Jr.

Sherman M. Saunders

H. Phillip Smith

Ruby B. Archie

LEGISLATIVE STAFF

W. Clark Whitfield, Jr.
Annette Y. Crane

City Attorney
City Clerk

ADMINISTRATIVE OFFICIALS

Jerry L. Gwaltney
M. Lyle Lacy, III
Joseph C. King
Todd M. Yeatts
Cynthia L. Thomasson
Ronald Bunch
Marc D. Adelman
Aubrey D. Dodson
Richard Drazenovich
Gwendolyn M. Edwards
Gerald L. Fischer
Kerry L. Goode, Sr.
B. G. Lewis, III
Philip Broadfoot
Andrea Witt
Douglas R. Young
John Gilstrap

City Manager
Deputy City Manager
Assistant City Manager for Utilities
Assistant City Manager for Government Affairs
Budget Director
Director of Economic Development
Director of Transportation Services
Director of Finance
Director of Public Works
Director of Human Services
Director of Community Development
Director of Information Technology
Fire Chief
Chief of Police
Director of Human Resources
Director of Emergency Services
Director of Parks, Recreation, and Tourism

CONSTITUTIONAL OFFICERS

James E. Dooley
William H. Fuller, III
Gerald A. Gibson
James M. Gillie
Lynda K. McDowell

City Sheriff
Commonwealth Attorney
Clerk of Circuit Court
Commissioner of the Revenue
City Treasurer

SCHOOL OFFICIALS

SCHOOL BOARD

R. J. Lackey
Chairman

Timothy Harville

Doris Wilson

George M. Wilson
Vice Chairman

O. Renee' Hughes

Rebecca Bolton

Edgar Love

ADMINISTRATIVE OFFICIALS

William Torok

Randy Kelley

Carrie Merricks

Juliet Jennings

Sue Davis

Chris Dunlap

Superintendent

Assistant Superintendent for
Business and Technology

Clerk of School Board

Assistant Superintendent for Human
Resource Services

Assistant Superintendent -
Curriculum and Instruction

Director of Support Services

EMPLOYEES' RETIREMENT SYSTEM OFFICIALS

BOARD OF TRUSTEES

City Employee Members

Carolyn B. Evans
Chairman

Richard A. Johnson

David H. Patterson

Citizen Members

James A. Motley
Retired,
American National Bank

Edward B. Baucom
Retired—Danville Regional Medical Center

E. Linwood Wright
Dan River, Inc.

EX-OFFICIO MEMBERS

H. Phillip Smith
Mayor Designee

Jerry L. Gwaltney
City Manager

Aubrey D. Dodson
Director of Finance



FINANCIAL SECTION



Report of Independent Auditors

Certified Public Accountants
Financial Planning
Specialized Services

The Honorable Mayor and Members of the City Council
City of Danville, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Danville, Virginia*** as of and for the year ended June 30, 2004, which collectively comprise the ***City of Danville's*** basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***City of Danville's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Danville*** as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2004 on our consideration of the ***City of Danville's*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the budgetary comparison schedules identified as Exhibits L and M in the Financial Section of the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***City of Danville's*** basic financial statements. The information identified as Schedules 1 through 11 in the Other Supplementary section, Schedule 12 in the Single Audit Section which is required by U.S. Office of Management and Budget (OMB) Circular A-133, and the Statement of Legal Debt Margin in the Statistical Section of the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the ***City of Danville***. Such information has been subjected to the auditing

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fax: 434.791.6061
www.goodmanco.com

procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Introductory and Statistical Sections of the report are presented for the purposes of additional analysis and are not required parts of the basic financial statements of the **City of Danville**. Such additional information, except as described in the preceding paragraph, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

Gordon & Company, LLP

Danville, Virginia
September 16, 2004



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

The City of Danville, Virginia's (the "City") management presents this discussion and analysis for the purpose of: (a) assisting the reader in understanding significant financial issues, (b) providing an overview of the City's financial activity, and (c) identifying changes in the City's financial position. We encourage readers to read the transmittal letter, the basic financial statements, and the notes to the financial statements along with this discussion and analysis.

Financial Highlights

Government-wide Financial Statements

- At the close of the fiscal year, the assets of the City exceeded its liabilities by \$265,241,302 (total net assets - government-wide). Of this amount, \$87,976,499 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Net assets of the City's business-type activities as of June 30, 2004 were \$199,137,417, an increase of \$10,619,430 from net assets of \$188,517,987 reported at June 30, 2003. Net assets of \$48,615,924 are reported as unrestricted, a \$10,393,476 reduction from unrestricted net assets reported for unrestricted at June 30, 2003.
- As of the close of the current fiscal year, the City's governmental activities for government-wide statements reported net assets of \$66,103,885, an increase of \$2,014,759 in comparison with the net assets of \$64,089,126 reported at June 30, 2003. Net assets of \$39,360,575 at June 30, 2004, are reported as unrestricted and available to meet the government's obligations to citizens and creditors.

Fund Financial Statements

- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$30,709,363, a decrease of \$5,210,318 in comparison to the fund balance reported at June 30, 2003 of \$35,919,681. Sixty-nine percent of the total fund balance at June 30, 2004, \$21,087,186, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$21,001,767, or twenty-five percent of total fund expenditures.

Fund statements utilize the current financial resource measurement focus and modified accrual basis of accounting, which focuses on transactions and events that effect the financial resources available for current spending during the period and reflect near-term inflows or outflows of cash. Government-wide statements use the economic resource measurement and accrual basis of accounting, which focuses on transactions and events that effect the fund's total economic resources; i.e., increase or decrease in net assets during the period regardless of the timing of the related cash inflows or outflows. Fund statements do not include capital or

other long-term assets that are not available to finance current period expenditures nor do they include long-term liabilities that will not use current resources. These items must be added (assets) or deducted (liabilities) to/from the fund balances of governmental funds to obtain the net assets of the governmental activities for government-wide reporting. In addition, the assets and liabilities of internal service funds are included in the governmental activities in the statement of activities, and the combined governmental fund balances from the fund financial statements must be adjusted accordingly. All of these factors add another \$35,394,522 to the combined balances of governmental funds when converting to net assets of governmental activities. The reconciliation presented on pages 41 and 43 of this report offer summarized details of the conversion from governmental fund statements to government-wide statements for governmental activities.

The combined fund balances of the governmental funds report an unreserved fund balance of \$21,087,186 and a reserved fund balance of \$9,622,177. Government-wide net assets for governmental activities report total restricted assets of \$6,153,666 and unrestricted net assets of \$39,360,575. The conversion from the unreserved fund balance to unrestricted net assets can be shown as follows:

Unreserved fund balance (fund statement)	\$21,087,186
Deferred revenue for fund statements no longer deferred for government-wide	10,585,759
Internal Service Funds noncapital assets merged into governmental activities for government-wide statements	4,496,110
Workers' compensation and other compensated absences	(338,452)
Encumbrances not restricted externally	<u>3,529,972</u>
Unrestricted net assets-per government-wide governmental activities	<u><u>\$39,360,575</u></u>

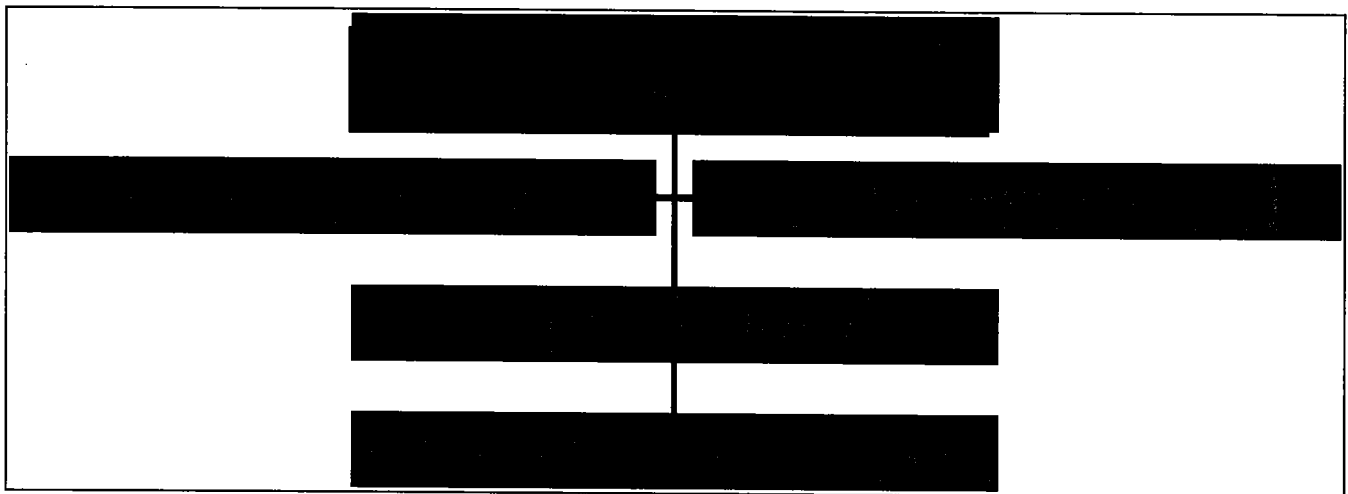
Likewise, the conversion from reserved fund balance to restricted net assets can be shown as follows:

Reserved fund balance (fund statement)	\$9,622,177
Reserved for Pension Assets	61,461
Encumbrances that do not meet GASB Statement 34 definition of restricted	<u>(3,529,972)</u>
Restricted net assets-governmental activities	<u><u>\$6,153,666</u></u>

The Statement of Assets - Enterprise Funds does not require a conversion to the Statement of Net Assets Government-wide reporting of Business-type Activities because enterprise funds already use the economic resource measurement focus and the accrual basis of accounting. From a management-reporting viewpoint, there are significant differences in the reporting of fund balance. These differences in reporting the composition of fund balance between the government-wide statements for business-type activities and the fund statements for enterprise funds are discussed in the Business-type Activities section of the Government-wide Financial Analysis discussion.

Overview of the Financial Statements

The following is a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (a) management's discussion and analysis (MD&A), (b) government-wide financial statements, (c) fund financial statements, and (d) notes to the financial statements.



Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances using the accrual basis of accounting, similar to the accounting found in private sector businesses. Government-wide financial reporting consists of two statements: the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets

The Statement of Net Assets presents information on all the City's assets and liabilities. The difference between assets and liabilities is reported as net assets. Net assets are presented in three categories: invested in capital assets – net of related debt, restricted, and unrestricted. Over time, the increases or decreases in the City's net assets can be an indicator as to whether the financial position of the City is improving or deteriorating. To accurately use changes in net assets as an indicator of the City's overall health, the underlying factors contributing to the increase or decrease must be analyzed, as well as other nonfinancial

factors (such as changes in the property tax base and the condition of infrastructure and other fixed assets).

The Statement of Activities

The Statement of Activities presents information showing how the net assets changed during the year. As mentioned earlier, government-wide statements use the accrual basis of accounting. Therefore, changes in net assets are recognized when an underlying event occurs regardless of the timing of the related cash flow. As a result, revenues and expenses are reported in this statement for some items that will not impact cash flows until future fiscal periods.

In the Statement of Net Assets and the Statement of Activities, the City of Danville is divided into three types of activities:

Governmental Funds - Most of the City's basic services are reported here: Police, Fire, Economic Development, Recreation, Social Services, Community Development, and the General Administration. These activities are supported primarily by property taxes, other local taxes, state and federal grants, and contributions from the City's Utility Department (Wastewater, Water, Gas, and Electric).

Business-Type Activities - The City has six business-type activities: (1) Wastewater, (2) Water, (3) Gas, (4) Electric, (5) Transportation, and (6) Sanitation. The City charges a fee to customers to cover all or most of the cost associated with providing these services.

Component Units - The City of Danville has two component units: (1) the Danville Public School System and (2) the Industrial Development Authority. While these represent legally separate entities, the City of Danville is financially accountable for them. These component units are combined and presented in a separate column on the government-wide statements to emphasize they are legally separate from the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. As is the case with other state and local governments, the City of Danville ensures and demonstrates compliance with legal requirements through its use of fund accounting. The City of Danville has three types of funds:

Governmental Funds

The Governmental Funds report essentially the same functions as the governmental activities in the government-wide financial statements. The governmental fund financial statements focus on the near-term cash inflows and outflows and the amount of spendable resources available at the end of the fiscal year. This information is useful when evaluating the City's near-term financing needs. Because the focus of the fund statements is narrower than that of the government-wide statements, it is useful to compare the information presented in both the fund and the government-wide

statements. A reconciliation from the fund statements to the government-wide statements is provided to facilitate this comparison.

There are five individual governmental funds maintained by the City of Danville. Information is presented separately in the Balance Sheet-Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds for the General Fund, the Community Development Fund, and the Capital Projects Fund, these funds are considered major funds. The Special Revenue Fund and the Cemetery Fund are considered non-major funds. The data for these two funds are combined in a single column for the Balance Sheet-Governmental Fund and the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Fund.

Enterprise Funds

The City of Danville maintains two types of enterprise funds: (a) utility funds and (b) internal services funds. Utility funds are used to report the same functions as the business-type activities in the government-wide financial statements. Wastewater, Water, Gas, and Electric are presented on the statements individually as major funds. Transportation and Sanitation are combined as nonmajor funds. Utility funds are used to account for operations that are: (1) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the cost of providing goods or services to the general public on a continuing basis to be financed or recovered primarily through user charges or (2) where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments on a cost reimbursement basis. The City of Danville has three internal service funds providing services to other City departments as follows:

1. Motorized Equipment – acquires and maintains all vehicles used by the various departments of the City. The Fire Department purchases and maintains large equipment independent of motorized equipment.
2. Central Services – provides office supplies and printing services for all of the City's departments.
3. Insurance – provides general insurance coverage to all City departments, including areas such as workers' compensation where the City is completely self-insured, and insurance coverage purchased from outside insurance companies.

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support the government's own programs. The City of Danville maintains one fiduciary fund, a Pension Trust Fund.

The Employees' Retirement System of the City of Danville functions as an investment and administrative agent for the City's retirement plan. These activities are excluded from the government-wide financial statements because the City cannot use these assets to finance its operations.

Notes to the financial statements

The notes to the financial statements are an integral part of the statements and should be read in conjunction with the basic financial statements, the management discussion and analysis, and the other required supplemental information.

Government-wide Financial Analysis

City of Danville's Net Assets Summary Statement of Net Assets June 30, 2004

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and Other Assets	51,484,911	54,640,385	66,686,795	70,568,620	118,171,706	125,209,005
Capital Assets	<u>75,488,618</u>	<u>77,078,086</u>	<u>183,312,110</u>	<u>171,361,606</u>	<u>258,800,728</u>	<u>248,439,692</u>
Total Assets	<u>\$ 126,973,529</u>	<u>\$ 131,718,471</u>	<u>\$ 249,998,905</u>	<u>\$ 241,930,226</u>	<u>\$ 376,972,434</u>	<u>\$ 373,648,697</u>
Long-Term Liabilities Outstanding	55,237,426	62,852,214	42,918,535	46,671,654	98,155,961	109,523,868
Other Liabilities	<u>5,632,218</u>	<u>4,777,131</u>	<u>7,942,953</u>	<u>6,740,585</u>	<u>13,575,171</u>	<u>11,517,716</u>
Total Liabilities	<u>\$ 60,869,644</u>	<u>\$ 67,629,345</u>	<u>\$ 50,861,488</u>	<u>\$ 53,412,239</u>	<u>\$ 111,731,132</u>	<u>\$ 121,041,584</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	20,589,644	14,927,384	141,102,057	125,436,377	161,691,701	140,363,761
Restricted for Capital Projects	1,346,660	4,860,030	9,419,436	4,072,210	10,766,096	8,932,240
Restricted for Special Programs	1,206,826	1,592,388	-	-	1,206,826	1,592,388
Restricted for Debt Service	688,607	689,207	-	-	688,607	689,207
Restricted-Other	2,911,573	3,028,818	-	-	2,911,573	3,028,818
Unrestricted	<u>39,360,575</u>	<u>38,991,299</u>	<u>48,615,924</u>	<u>59,009,400</u>	<u>87,976,499</u>	<u>98,000,699</u>
Total Net Assets	<u>\$ 66,103,885</u>	<u>\$ 64,089,126</u>	<u>\$ 199,137,417</u>	<u>\$ 188,517,987</u>	<u>\$ 265,241,302</u>	<u>\$ 252,607,113</u>

The City's combined net assets at June 30, 2004 are \$265,241,302, an increase of \$12,634,189 from combined net assets at June 30, 2003. Thirty-three percent of total net assets (\$87,976,499) is unrestricted and available for providing services to the citizens of the City of Danville and satisfying creditors. Sixty-one percent of total net assets is invested in capital assets (land, buildings, machinery, and equipment), less any related outstanding debt used to acquire these assets. These assets are used in providing services to the citizens; consequently, these assets are not available for future spending. Although the City of Danville's investment in capital assets is reported net of related outstanding debt, it should be noted that the resources needed to repay this debt must be provided from other sources. Four percent of total net assets is restricted for capital improvement projects. Invested in Capital Assets Net of Related Debt and restricted for Capital Projects combined represent sixty-five percent of total net assets. The remaining two percent of net assets (\$4,807,006) is restricted for other special projects (grants), debt service, net pension assets, and the perpetual care of the municipal cemetery. The composition of fund balance at June 30, 2003 was as follows: Unrestricted net assets - 39%, Invested in Capital Assets net of related debt - 55%, Restricted for Capital Projects - 4% (Invested in Capital Assets and Restricted for Capital Projects combined - 59%), and the remaining 2% is restricted for other purposes. Despite the economic

stresses locally, the City of Danville reported positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. Unrestricted fund balance declined, while fund balance restricted for investment in capital assets net of related debt and restricted for capital projects increased.

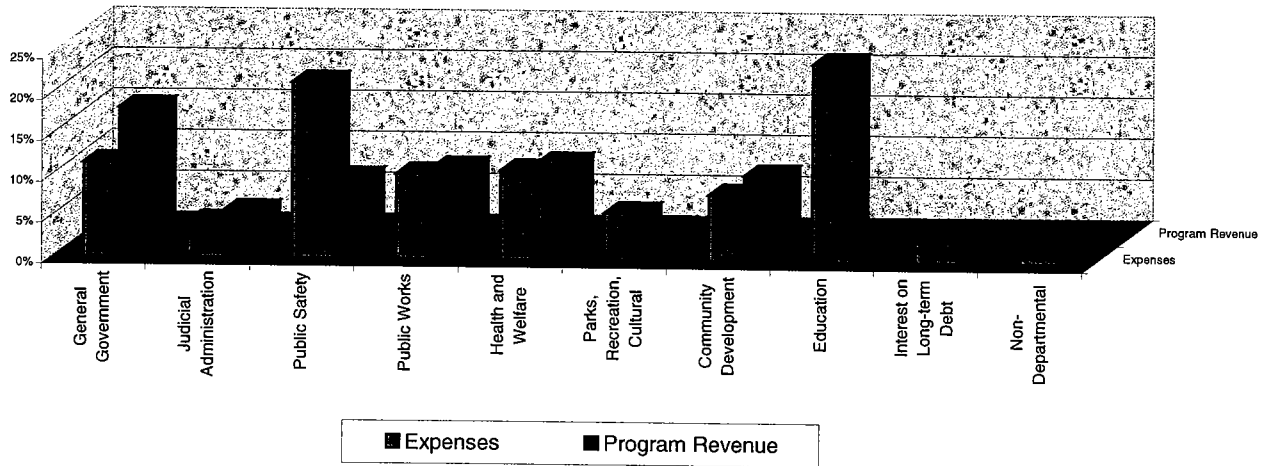
City of Danville's
Changes in Net Assets
June 30, 2004

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for Services	\$ 6,039,896	\$ 5,539,524	\$ 97,480,342	\$ 100,491,123	\$ 103,520,238	\$ 106,030,647
Operating Grants and Contributions	37,731,065	28,413,626	0	477,774	37,731,065	28,891,400
Capital Grants and Contributions	4,807,968	5,102,140	1,065,942	56,343	5,873,910	5,158,483
General Revenues:						
Real Estate and Personal Property	23,289,443	23,943,675	-	-	23,289,443	23,943,675
Other Taxes	13,591,769	19,316,285	-	-	13,591,769	19,316,285
Grants and Contributions not Restricted	-	-	-	-	-	-
Interest on Investments	104,591	1,247,279	78,404	2,686,690	182,995	3,933,969
Transfers	10,529,984	10,557,137	-	-	10,529,984	10,557,137
Miscellaneous	3,297,463	3,400,681	219,659	1,411,779	3,517,122	4,812,460
Total Revenues	\$ 99,392,179	\$ 97,520,347	\$ 98,844,347	\$ 105,123,709	\$ 198,236,526	\$ 202,644,056
Expenses:						
General Government	\$ 11,208,242	\$ 10,007,284	\$ -	\$ -	\$ 11,208,242	\$ 10,007,284
Judicial Administration	4,232,325	5,290,396	-	-	4,232,325	5,290,396
Public Safety	20,971,031	21,611,220	-	-	20,971,031	21,611,220
Public Works	10,129,695	9,748,494	-	-	10,129,695	9,748,494
Health and Welfare	10,589,382	11,908,642	-	-	10,589,382	11,908,642
Parks, Recreation, and Culture	5,621,196	4,926,303	-	-	5,621,196	4,926,303
Community Development	7,893,504	5,444,251	-	-	7,893,504	5,444,251
Education (payment to school district)	23,598,363	21,298,922	-	-	23,598,363	21,298,922
Interest on Long Term Debt	2,461,084	2,112,705	-	-	2,461,084	2,112,705
Non-Departmental	672,598	1,013,117	-	-	672,598	1,013,117
Wastewater	-	-	6,304,213	6,301,012	6,304,213	6,301,012
Water	-	-	4,204,395	4,355,081	4,204,395	4,355,081
Gas	-	-	22,667,165	27,037,186	22,667,165	27,037,186
Electric	-	-	40,030,479	38,815,555	40,030,479	38,815,555
Transportation	-	-	1,039,368	1,014,484	1,039,368	1,014,484
Sanitation	-	-	3,449,313	3,278,594	3,449,313	3,278,594
Total Expenses	\$ 97,377,420	\$ 93,361,334	\$ 77,694,933	\$ 80,801,912	\$ 175,072,353	\$ 174,163,246
Subtotal Revenues over Expenses	\$ 2,014,759	\$ 4,159,013	\$ 21,149,414	\$ 24,321,797	\$ 23,164,173	\$ 28,480,810
Transfers	-	-	(10,529,984)	(10,557,137)	(10,529,984)	(10,557,137)
Increase (Decrease) in Net Assets	2,014,759	4,159,013	10,619,430	13,764,660	12,634,189	17,923,673
Beginning Net Assets	64,089,126	59,930,113	188,517,987	174,753,327	252,607,113	234,683,440
Ending Net Assets	\$ 66,103,885	\$ 64,089,126	\$ 199,137,417	\$ 188,517,987	\$ 265,241,302	\$ 252,607,113

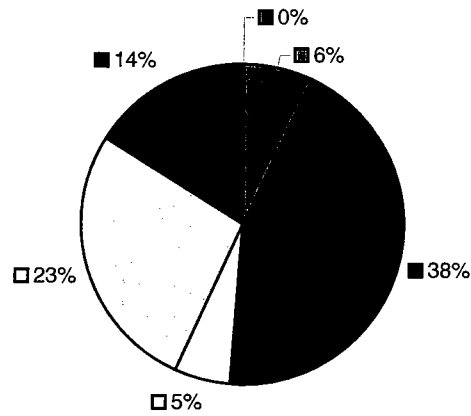
Governmental Activities

Governmental activities increased the City of Danville's net assets by \$2,014,759 or 16% of total primary government activities. Revenues from governmental activities totaled \$99,392,179, with Property Taxes 24%, Other Taxes 14%, Operating Grants and Contributions 38%, Capital Grants and Contributions 5%, and Transfers 11%, representing 92% of the City's revenues. Expenses for governmental activities totaled \$97,377,420, of which 50% was supported from program revenues and the remaining 50% from general revenues. Expenses for Public Safety 22%, Education 24%, Health & Welfare 11%, General Government 12%, Public Works 10%, and Interest on Long-Term Debt 3%, make-up 82% of the total governmental expenses.

Expenses and Program Revenue - Governmental Activities



Revenue by Source - Governmental Activities

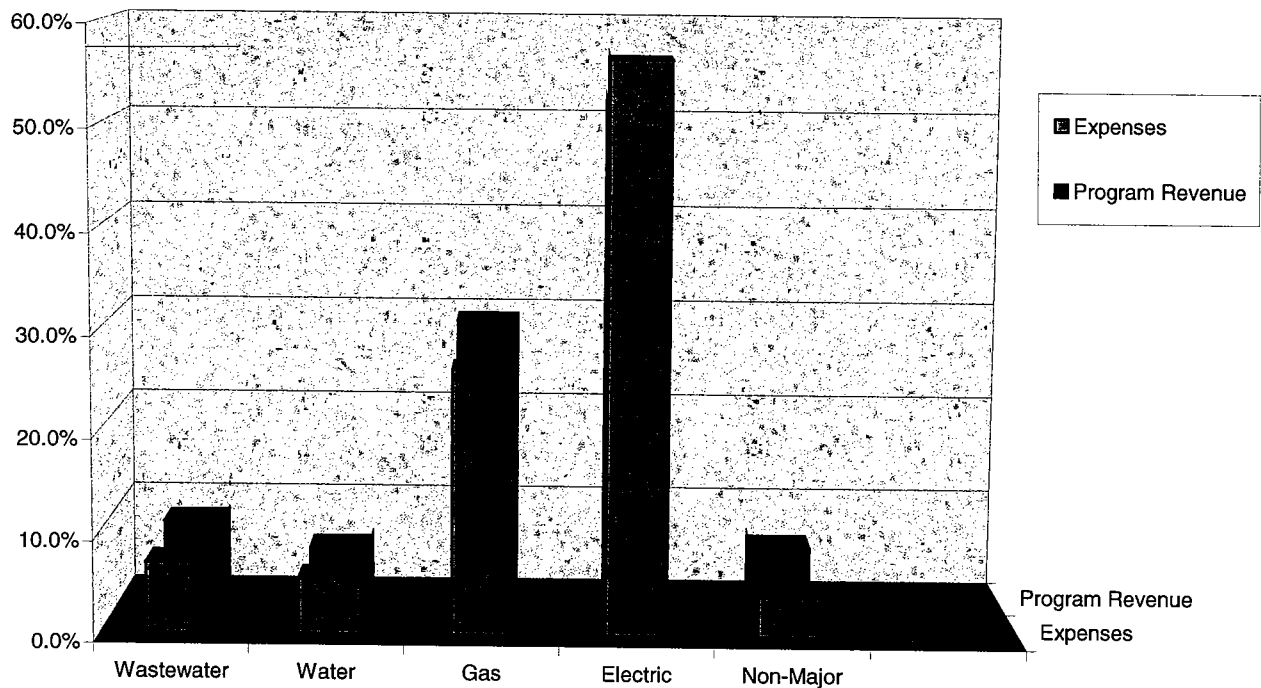


- Charges for Services
- Operating Grants and Contributions
- Capital Grants and Contributions
- Property Taxes
- Other Taxes
- Interest on Investments

Business-type Activities

Business-type activities increased the City's net assets by \$10,619,430 compared to last year's increase in net assets of \$13,764,660. At June 30, 2004, total net assets were \$199,137,417 of which \$9,419,436 was restricted for capital improvement projects and \$48,615,924 was unrestricted. GASB Statement 34 requires that restricted assets have external restrictions imposed (grantors, contributions, and debt covenants). In addition to the \$9,419,436 restricted for capital improvements, City Council has approved \$12,845,173 through Council ordinances for capital improvements. However, this does not meet the restriction requirements for GASB Statement 34 reporting purposes. As a result, the Statement of Net Assets – Enterprise Funds (Exhibit E) report \$22,264,609 restricted for incomplete projects. This restriction is composed of the \$9,419,436 restricted external for capital improvements plus the additional \$12,845,173 restricted for capital improvements through Council ordinances. With these changes in the definition of restricted from fund statements to government-wide statements, the unrestricted fund balance for enterprise funds is reported at \$35,770,751 compared to the unrestricted net assets of \$48,615,924 for business-type activities. Revenues for business-type activities were \$98,844,347 of which 99% were from Charges for Services. For further examination of the enterprise funds, please refer to the Enterprise Funds section of the Financial Analysis of the Fund Financial Statements found on page 31

Expenses and Program Revenue - Business-type Activities



Financial Analysis of the Fund Financial Statements

Governmental Funds

Governmental funds reported combined ending fund balance of \$30,709,363, a decrease of \$5,210,317 when compared with the combined fund balance at June 30, 2003 of \$35,919,680. The majority of the decrease is a result of (CIP) fund balance decrease of \$4,123,553. Of the \$12,016,550 expended in the CIP fund, \$1,100,000 was paid to Industrial Development Authority (IDA) for economic development. Grant funds of \$3,000,000 were expended for repayment of debt for school renovations, and \$1,433,306 was expended on Intergraded Financial Administration Software Phase I, of which \$1,087,260 was a contribution-in-aid from the Water and Electric funds.

Sixty-nine percent (\$21,087,186) of the combined governmental funds balance is unreserved fund balance, which is available for spending at the government's discretion. The remaining thirty-one percent (\$9,622,177) of combined fund balance is reserved and not available for new spending, because it has already been committed to encumbrances (\$2,719,704); perpetual care of the municipal cemetery (\$2,430,437); debt service (\$688,607); and specific projects (\$3,783,429).

The General Fund, which is the chief operating fund of the City, reports a combined fund balance at June 30, 2004 of \$23,478,669. This is a decrease of \$887,918 compared to last year's fund balance of \$24,366,587. The General Fund reported an unreserved fund balance of \$21,001,767, a decrease of \$322,627 from the June 30, 2003 unreserved fund balance of \$21,324,394. The ability of the General Fund to generate cash on demand can be calculated by comparing both the unreserved fund balance and total fund balance to total funds expended. Unreserved fund balance represents 26% of total General Fund expenditures while total fund balance represents 29% of total fund expenditures. When transfers out and expenditures for education of \$25,797,468 are added to expenditures, then unreserved fund balance is 22% percent of expenditures and transfers out. The following table represents General Fund support:

Public Schools	\$ 21,591,119
Support of Grants	603,224
Support of CIP Projects	3,447,214
Support of Transportation	155,911

The decrease in fund balance of \$887,918 resulted from \$1,814,624 unexpended budget and prior year encumbrances; \$2,055,340 unrealized revenue; and \$1,244,732 supplemental appropriations from fund balance.

Some key factors of unexpended appropriations are as follows:

- Public Safety had unexpended appropriations of \$345,850. This was partly due to under utilization of beds at the W.W. Moore Detention Home.
- Health and Welfare expenditures were \$459,961 under estimated budget. This was because Social Services and Welfare Reform expenditures were less than budget.

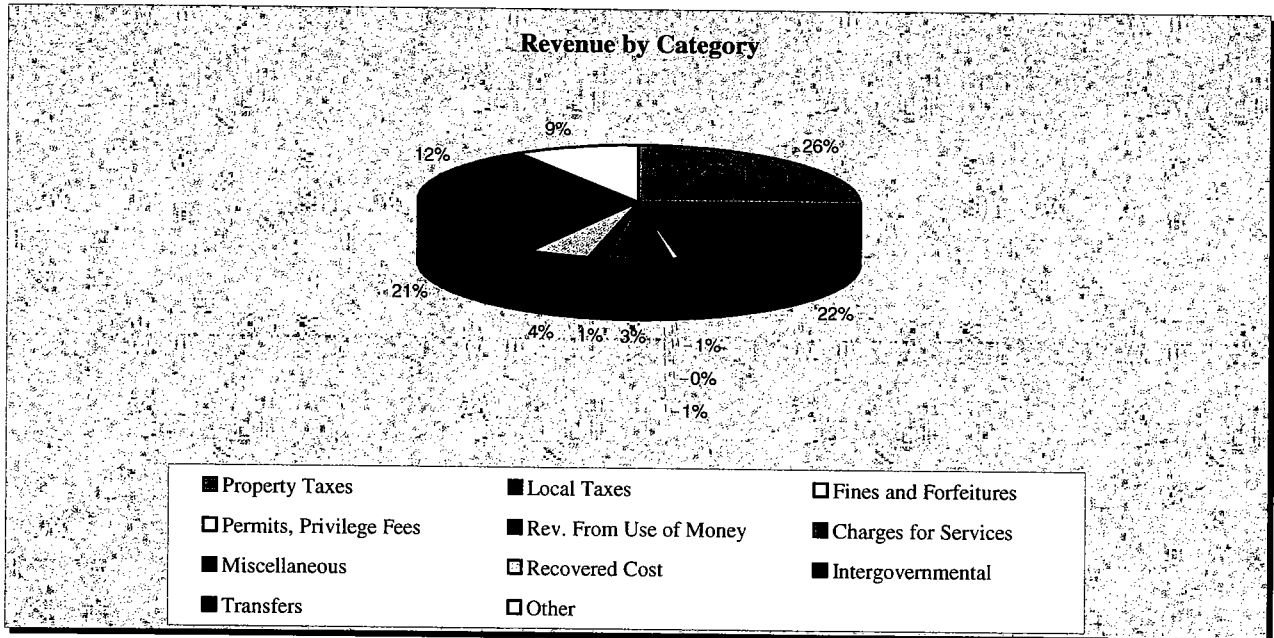
These two divisions are supported by state funding; therefore, expenditures are based on funding from the state.

- Nondepartmental spending was under budget by \$1,026,862 for the City's cost of health benefits for employees and \$120,242 for debt service. The City's cost of health insurance decreased due to a change in the benefit structure and additional contributions by employees. Debt service was less because the City was able to use residual bond funds for repayment of debt for the Juvenile Detention Facility.

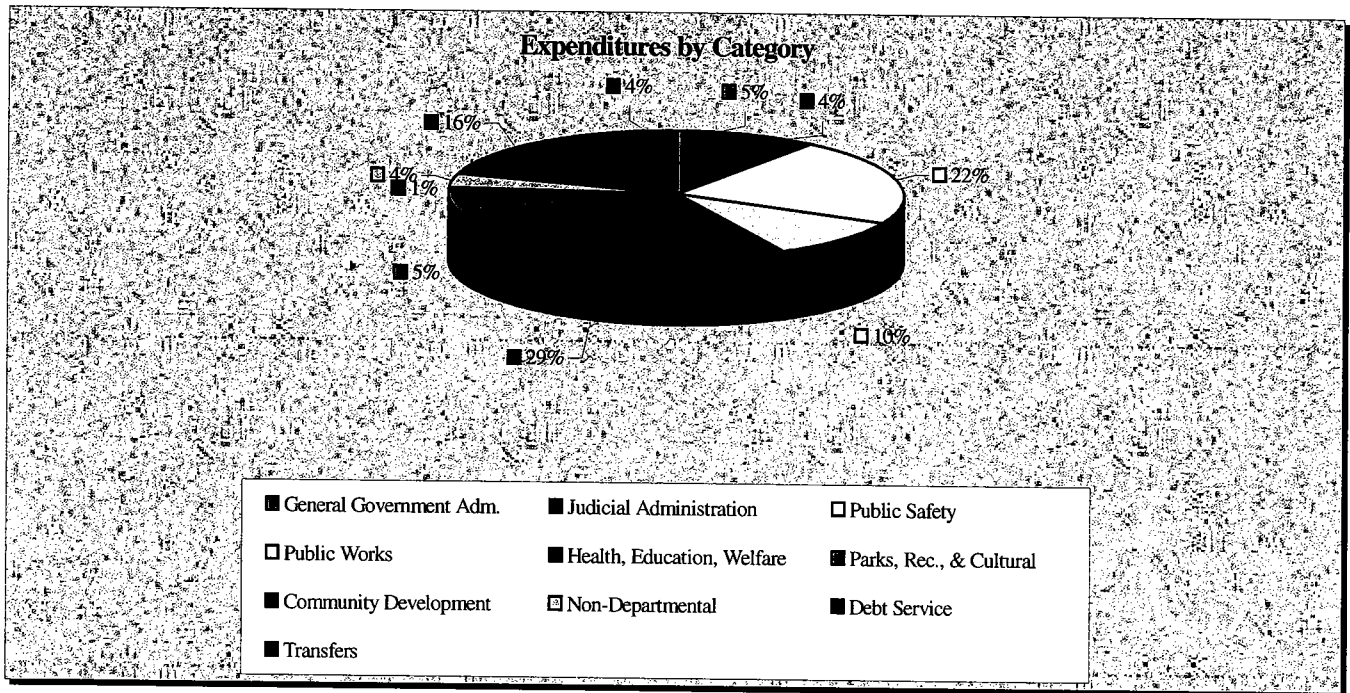
Some key factors of unrealized revenue are as follows:

- Real Estate, Personal Property, and Machinery and Tools had a cumulative shortfall of budget revenues of \$1,153,922. Part of this can be attributed to the recent bankruptcy proceedings of Dan River Inc. A portion of the decrease in Personal Property Tax was due to the recent value changes by the National Automobile Dealers Association which are used by the Commissioner of Revenue for assessment purposes.
- Charges for Services had a shortfall of \$631,820 from budget estimates. This was due to a variance in Juvenile and Adult Detention Charges for Services.

The following graph depicts General Fund revenue by categories as a percent of total revenues for fiscal year ending June 30, 2004. Total revenues are \$84,499,702, including transfers in of \$11,035,897.



The graph below shows General Fund expenditures by category as a percent of total expenditures for fiscal year ending June 30, 2004. Total expenditures are \$85,317,597, including transfers out of \$4,206,351.



Enterprise Funds

Enterprise funds reported combined ending net assets of \$199,137,417; an increase of \$10,619,430 compared to combined net assets reported at June 30, 2003. Each of the enterprise funds contributed to this increase as follows: Electric Fund, 74% or \$7,886,057; Water Fund, 12% or \$1,274,405; Wastewater Fund, 6.4% or \$675,821; Gas Fund, 11% or \$1,143,982; Sanitation Fund, decreased 3% or \$451,390; and the Transportation Fund increased 1% or \$90,555.

Revenues from all sources, including contributed capital and transfers in, decreased \$6,277,656 from fiscal year ended June 30, 2003 compared to fiscal year ended June 30, 2004. The majority of the decreases in revenue result from the following:

Charges for Services	\$3,649,374
Jobbing Income	671,655
Interest Income	1,992,748
Gain on sale of fixed assets	411,218

Charges for Services decreased in the Gas Fund \$4,029,681. Electric Charges for Services increased \$697,307. The Wastewater and Water departments had a combined decrease of \$256,151 and Nonmajor Funds (Transportation and Sanitation) decreased \$61,209. The decrease in the Gas Fund is due to a decrease in sales to firm customers and adjustments for losses to interruptible customers. Despite the decrease in Charges for Services, the Gas Fund operating income increased \$335,411 compared to last year. The Electric Fund's increase is primarily due to an increase in Kilowatt-hour sales. The decrease in the Wastewater and Water Funds is due to a decrease in demand for wastewater and water services resulting from the recent plant closures. The majority of decrease in operating expenses of \$2,837,076

resulted from a decrease in Purchase Goods and Services, within the Gas Fund (\$4,316,495) and the Electric Fund (\$286,180). Other operating expenses experienced a net increase of \$1,765,599 within the following funds: Wastewater increased \$85,132, Water increased \$37,371, Gas decreased \$48,598, Electric increased \$1,491,652, and Nonmajor Funds (Sanitation and Transportation) increased \$200,042.

The Utilities contributed \$10,685,895 in support of the General Fund for fiscal year ending June 30, 2004. Enterprise Funds' net assets of \$199,137,417 include \$35,770,751 unrestricted, \$22,264,609 restricted for incomplete projects, and \$141,102,057 invested in capital assets net of related debt. The statements also reflect a decrease to the market value of investments in the amount of \$1,656,613.

General Budgetary Highlights

Differences between the City's original operating budget and the final amended budget resulted in additional appropriations totaling \$10,597,580. \$9,352,848 had matching revenues and \$1,244,732 was funded from fund balance, as represented in the table below:

Appropriations with matching revenue:

Bond Refunding Proceeds	\$8,760,866
Police Forfeited Funds	99,043
Private Donations Project Lifesaver	7,480
DMV Fees	23,080
Transfer from Insurance Fund for Workers' Compensation	350,000
State Grants	112,379

Appropriations from fund balance:

Economic Development Incentives	\$1,100,000
Regional Center for Applied Tech	75,000
Support of Comprehensive Service Act	69,732

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2004, the City of Danville's capital assets investment for its governmental and business-type activities amounts to \$258,800,728 (net of accumulated depreciation). Capital

assets include land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. For further analysis of capital assets, please refer to note 5 for notes to financial statement found on page 65.

Major capital asset events during the current fiscal year included the following:

- Implementation of financial software, at the end of June 30, 2004, had expenditures of \$2,654,534. Contributions from the Water Fund and the Electric Fund were \$283,922 and \$1,613,916 respectively with the remaining funds coming from General Fund. Phase I of this project included the implementation of general ledger, budgeting, and payroll. Phase I is expected to be complete by January 2005.
- Economic development incentives totaling \$2,425,000 were granted to Luna Innovations, Telvista, and Essel Propack. \$800,000 was from Tobacco Funds and \$525,000 was from Governor Opportunity Funds. The remaining \$1,100,000 came from General Fund balance.
- Construction and development of the Cyber Park is scheduled to be complete in January 2005. At the end of June 30, 2004, expenditures for this project totaled \$23,137,654. These expenditures were for construction of the Institute for Advance Learning Facility, road, sewer, gas and electric lines, and debt repayment.
- Capital Improvements for the Water Fund amounted to \$5,354,777. Improvements to the Water Treatment Facility amounted to \$3,446,268 and the remaining \$1,908,509 was spread among various Capital Improvement projects.
- Broadband project in the Electric Fund at June 30, 2004 had expenditures of \$1,515,824. This project has a budget of \$2,500,000.
- Pinnacles Pipeline replacements totaled \$1,205,021.

City of Danville's Capital Assets
(Net of Depreciation)

	Governmental Activities	Business-type Activities	Total
Land	\$ 6,712,815	\$ 1,197,914	\$ 7,910,729
Building & Improvements	23,328,974	134,126,302	157,455,276
Machinery & Equipment	2,921,157	23,003,348	25,924,505
Infrastructure	14,663,607	-	14,663,607
Construction in Progress	2,884,484	24,984,690	27,869,174
Subtotal	<u>50,511,037</u>	<u>183,312,254</u>	<u>233,823,291</u>
Assets Transferred from School Board	<u>24,977,581</u>	<u>-</u>	<u>24,977,581</u>
Total	<u><u>\$ 75,488,618</u></u>	<u><u>\$ 183,312,254</u></u>	<u><u>\$ 258,800,872</u></u>

Long-term debt

At the end of the current fiscal year, the City of Danville had total outstanding general obligation and revenue bonded debt of \$81,979,707, lease revenue bonded debt of \$12,622,936, capital lease obligations-equipment of \$45,718, and Section 108 debt of \$1,000,000 for a total of \$95,648,361.

City of Danville's Outstanding Debt Bonds and Related Loans						
	Governmental Activities		Business-type Activities		Total	
	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03
General Obligation Bonds	\$ 39,134,900	\$ 42,352,275	\$ 35,216,121	\$ 37,583,274	\$ 74,351,021	\$ 79,935,549
Revenue Bonds			7,628,686	8,256,918	7,628,686	8,256,918
Lease Revenue Bonds	12,622,936	16,381,472	-	-	12,622,936	16,381,472
Capital Lease Obligations-Equip.	45,718	223,163	-	-	45,718	223,163
Section 108	1,000,000	1,200,000	-	-	1,000,000	1,200,000
Total	<u>\$ 52,803,554</u>	<u>\$ 60,156,910</u>	<u>\$ 42,844,807</u>	<u>\$ 45,840,192</u>	<u>\$ 95,648,361</u>	<u>\$ 105,997,102</u>

The Section 108 Loan was solely for the development of the Riverview Industrial Park and is being repaid with Community Development Block Grant Entitlement money. The lease-revenue bonds cover three items: (1) addition and renovation to the courts and jail, (2) expansion of the juvenile detention home, and (3) requisition of the Social Services building, which houses the social services departments.

During the 2003-2004 fiscal year, the City made principal payments of \$11,523,741 and refunded \$22,315,000 of outstanding debt by issuing new debt for \$23,490,000. Even though additional debt of \$1,175,000 was assumed to fund the refunding, a net cash flow savings of \$1,445,413 resulted from interest savings.

At the time of the City's last bond rating review, we received an "A3" rating from Moody's for general obligation and revenue bond debt. The City of Danville's debt management policy states that total general obligation net debt will not exceed 7.5% of the assessed valuation of the real property in the City of Danville, which is less than the 10% debt limit required by the State Constitution. At June 30, 2004, net debt for the City of Danville was 3.49%.

Additional information on the City of Danville's long-term debt can be found in note 7 on page 72 of this report.

Economic Factors and Next Year's Budget and Rates

- As of October 31, 2004, the average unemployment rate for the City of Danville was 7.7 percent, which is a decrease from a rate of 8.7 percent at October 31, 2003. This compares to the state's average unemployment rate of 3.2 percent and the national average rate of 5.1 percent.
- Danville had negative job growth at the end of 2003-04 fiscal year, and experienced numerous permanent layoffs due primarily to the closing of Masonite Industries and VF Playwear and the bankruptcy proceedings of Dan River Inc. Danville is rebuilding itself with essential steps towards biotechnology; air- and land-based robotics research,

aerospace, engineering, and advanced polymers research. The goal of the City of Danville is to shift from a traditional agricultural- and textile-dependent economy to a knowledge-based economy.

- Beginning July 1, 2005, management anticipates an increase in all utility rates (Wastewater, Water, Gas, and Electric) charged to its consumers, as well as an increase in Sanitation fees. It is also likely that tax rates may increase for fiscal year 2005-2006. Council must approve all tax and rate increases recommended by management. For a more detailed discussion concerning the utility rates, please refer to the Long-term Financial Planning section of the Transmittal letter found on page 7.
- Danville has an estimated population of 46,600, based on the 2000 census.
- Danville has a per capita income of \$21,280. The State per capita income is \$32,676.
- Danville is located in the southern region of the United States. According to the consumer price index, Danville and the southern region have a lower cost of living compared to other regions in the United States.

Primary revenue sources for the City's General Fund are property taxes, sales taxes, business and occupational licenses, meals taxes, state revenues, and contributions from the City's Utility Departments. In establishing the budget, historical and trend data are analyzed. In addition to analyzing historical data, economic indicators and the impact the economy will have on the historical data is taken into consideration. Throughout the year, management monitors revenues and economic indicators to determine if they are on target with the analysis used to develop the budget.

Requests for Information

This financial report is designed to provide a general overview of the City of Danville's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Danville, Director of Finance, 427 Patton Street, Danville, Virginia 24541.



FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2004

ASSETS	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Cash and investments				
Restricted - permanently	\$ 171,659	\$ 22,121,017	\$ 22,292,676	\$ 900,000
Unrestricted	29,781,837	31,303,265	61,085,102	2,908,036
Cash and investments - held by fiscal agents	851,611	14,000	865,611	111,482
Receivables - net	13,517,461	9,569,439	23,086,900	134,340
Due from City	-	-	-	1,110,896
Due from other governments	5,765,473	408,205	6,173,678	3,467,956
Prepayments	988,603	-	988,603	92,567
Inventories	346,806	2,493,420	2,840,226	914,358
Pension asset	61,461	777,449	838,910	-
Capital assets:				
Land and construction in progress	9,597,299	26,182,604	35,779,903	4,199,014
Other capital assets - net	65,891,319	157,129,506	223,020,825	5,155,231
Total assets	126,973,529	249,998,905	376,972,434	18,993,880
LIABILITIES				
Accounts payable	2,418,616	5,394,166	7,812,782	462,549
Accrued salaries	-	-	-	3,231,192
Accrued payroll taxes	-	-	-	247,957
Accrued interest	329,290	540,676	869,966	-
Accrued expenses	-	-	-	13,948
Due to component unit	1,110,896	-	1,110,896	-
Due to primary government	-	107,167	107,167	-
Due to other governments	398,498	-	398,498	-
Refundable deposits	192,023	1,899,402	2,091,425	-
Pension liability	-	1,542	1,542	-
Deferred revenue	1,182,895	-	1,182,895	672,240
Long-term liabilities:				
Due within one year	4,865,289	4,433,876	9,299,165	1,447,121
Due in more than one year	50,372,137	38,484,659	88,856,796	6,190,816
Total liabilities	60,869,644	50,861,488	111,731,132	12,265,823
NET ASSETS				
Invested in capital assets - net of related debt	20,589,644	141,102,057	161,691,701	5,352,118
Restricted for:				
Retainage	-	-	-	900,000
Capital projects	1,346,660	9,419,436	10,766,096	-
Special programs	1,206,826	-	1,206,826	1,228,282
Debt service	688,607	-	688,607	-
Other purposes	2,911,573	-	2,911,573	-
Unrestricted	39,360,575	48,615,924	87,976,499	(752,343)
Total net assets	\$ 66,103,885	\$ 199,137,417	\$ 265,241,302	\$ 6,728,057

The accompanying notes are an integral part of these financial statements.

CITY OF DANVILLE, VIRGINIA
STATEMENT OF ACTIVITIES

Exhibit B

Year Ended June 30, 2004

Functions/Programs Primary Government:	Program Revenues					Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions		Primary Government			
						Governmental Activities	Business-type Activities	Total	Component Units
Government activities:									
General government	\$ 11,208,242	\$ 4,853,085	\$ 10,071,434	\$ -	\$ -	\$ 3,716,277	\$ -	\$ 3,716,277	\$ -
Judicial administration	4,232,325	549,137	1,876,464	-	-	(1,806,724)	-	(1,806,724)	-
Public safety	20,971,031	191,828	6,341,784	358,877	-	(14,078,544)	-	(14,078,544)	-
Public works	10,129,895	224,905	7,615,478	-	-	(2,289,312)	-	(2,289,312)	-
Health and welfare	10,589,382	-	8,463,737	-	-	(2,125,645)	-	(2,125,645)	-
Parks, recreation, cultural	5,621,198	220,943	634,134	-	-	(4,766,119)	-	(4,766,119)	-
Community development	7,893,504	-	2,728,034	4,449,091	-	(716,379)	-	(716,379)	-
Education	23,598,363	-	-	-	-	(23,598,363)	-	(23,598,363)	-
Interest on long-term debt	2,461,084	-	-	-	-	(2,461,084)	-	(2,461,084)	-
Nondepartmental	872,598	-	-	-	-	(872,598)	-	(872,598)	-
Total governmental activities	97,377,420	6,039,896	37,731,065	4,807,968	-	(48,798,491)	-	(48,798,491)	-
Business-type activities:									
Wastewater	6,304,213	6,918,502	-	61,532	-	-	675,821	675,821	-
Water	4,204,395	5,223,867	-	187,047	-	-	1,206,519	1,206,519	-
Gas	22,667,165	25,998,471	-	39,506	-	-	3,371,812	3,371,812	-
Electric	40,030,479	55,481,259	-	48,489	-	-	15,509,269	15,509,269	-
Nonmajor	4,488,681	3,208,290	-	729,368	-	-	(551,023)	(551,023)	-
Total business-type activities	77,694,933	96,841,389	-	1,065,942	-	-	20,212,398	20,212,398	-
Total primary government	\$ 175,072,353	\$ 102,881,285	\$ 37,731,065	\$ 5,873,910	-	(48,798,491)	20,212,398	(28,586,093)	-
Component Units:									
Danville Public Schools	\$ 64,596,022	\$ 1,020,093	\$ 30,144,042	\$ 6,743,687	-	-	-	-	(26,688,200)
Industrial Development Authority	1,486,251	227,000	2,458,111	-	-	-	-	-	1,198,860
Total component units	\$ 66,082,273	\$ 1,247,093	\$ 32,602,153	\$ 6,743,687	-	-	-	-	(25,489,340)
General Revenues:									
Real estate and personal property taxes						23,289,443	-	23,289,443	-
Other taxes						13,591,769	-	13,591,769	-
Payments from City of Danville						-	-	-	18,488,646
State aid						-	-	-	6,529,307
Investment income						104,591	78,404	182,995	189,837
Transfers - net						10,529,984	(10,529,984)	-	-
Miscellaneous						3,297,463	858,612	4,156,075	1,408,873
Total general revenues, transfers and miscellaneous						50,813,250	(9,592,968)	41,220,282	26,616,863
Change in net assets						2,014,759	10,619,430	12,634,189	1,127,323
Net assets - beginning of year						64,089,126	188,517,987	252,607,113	5,600,734
Net assets - end of year						\$ 66,103,885	\$ 199,137,417	\$ 265,241,302	\$ 6,728,057

The accompanying notes are an integral part of these financial statements.

BALANCE SHEET - GOVERNMENTAL FUNDS

Exhibit C

June 30, 2004

ASSETS

	General	Community Development	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Cash and investments					
Restricted permanently					
Unrestricted	\$ 171,659	\$ -	\$ -	\$ -	\$ 171,659
Cash and investments on hand or held by fiscal agent	19,757,559	1,495,751	1,920,881	2,430,437	25,304,608
Receivables - net	786,621	5,000	-	-	791,621
Taxes and licenses					
Accounts	7,929,788	-	-	-	7,929,788
Accrued interest	186,625	2,428	451,446	1,805	652,304
Loans	485,201	1,652	-	-	486,853
Due from other funds	-	4,417,720	-	29,307	4,447,027
Due from other governments	988,895	-	-	-	988,895
Inventories	2,902,835	433,618	1,498,729	930,291	5,765,473
Prepayments	257,544	-	-	-	257,544
	988,355	248	-	-	988,603
Total assets	\$ 34,445,082	\$ 6,356,417	\$ 3,571,036	\$ 3,391,840	\$ 47,764,375

LIABILITIES AND FUND BALANCES

LIABILITIES					
Accounts payable	\$ 1,628,771	\$ 131,677	\$ 349,927	\$ 187,657	\$ 2,298,032
Deferred revenue	7,636,225	4,420,147	-	30,296	12,086,668
Refundable deposits	192,023	-	-	-	192,023
Due to other governments	398,498	-	-	-	398,498
Due to component units	1,110,896	-	-	-	1,110,896
Due to other funds	-	523,658	-	445,237	968,895
Total liabilities	10,966,413	5,075,482	349,927	663,190	17,055,012
FUND BALANCES					
Reserved for:					
Encumbrances					
Cemetery maintenance	1,401,979	278,495	826,436	212,794	2,719,704
Debt service	-	-	-	2,430,437	2,430,437
Specific projects	688,607	-	-	-	688,607
Unreserved:	386,316	1,002,440	2,394,673	-	3,783,429
General fund	21,001,767	-	-	-	21,001,767
Special grants fund	-	-	-	85,419	85,419
Total fund balances	23,478,689	1,280,935	3,221,109	2,728,650	30,709,383
Total liabilities and fund balances	\$ 34,445,082	\$ 6,356,417	\$ 3,571,036	\$ 3,391,840	\$ 47,764,375

BALANCE SHEET - GOVERNMENTAL FUNDS**June 30, 2004****Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Assets**

Total fund balances - governmental funds	\$ 30,709,363
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Amount reported for governmental activities in the
Statement of Net Assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	73,192,113
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Other long-term assets are not available to pay for current-period
expenditures and therefore are deferred in the funds.

Deferred revenue	\$ 11,142,974	
Accrued interest	<u>(327,319)</u>	
		10,815,655

Internal service funds are used by management to charge the costs
of certain activities, such as insurance, printing, and communications,
to individual funds. The assets and liabilities of certain internal service
funds are included in governmental activities in the statement of net
assets.

6,624,180

Long-term liabilities, including bonds payable, are not due and
payable in the current period and therefore are not reported as liabilities
in the governmental funds.

(55,237,426)

Total net assets-governmental activities	\$ <u>66,103,885</u>
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The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2004

	General	Community Development	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 23,289,443	\$ -	\$ -	\$ -	23,289,443
Local taxes	20,358,825	-	-	-	20,358,825
Fines and forfeitures	487,400	-	-	-	487,400
Permits, privilege fees, and regulatory licenses	189,405	-	-	-	189,405
Revenue from use of money and property	651,688	-	28,626	-	680,314
Charges for services	3,555,551	-	-	-	3,555,551
Miscellaneous	58,097	2,657,842	-	-	2,937,622
Recovered costs	4,129,121	-	-	-	4,129,121
Intergovernmental	20,744,275	48,856	4,417,157	3,221,199	28,431,487
Total revenues	73,463,805	2,706,698	4,445,783	3,442,882	84,059,168
EXPENDITURES					
Current:					
General government	5,121,782	-	-	-	5,121,782
Judicial administration	4,188,468	-	-	-	4,242,578
Public safety	20,707,165	-	-	54,110	21,402,433
Public works	9,225,555	-	-	695,268	9,298,498
Health and welfare	7,749,689	-	-	72,943	7,822,632
Education	18,497,749	-	-	2,733,345	21,231,094
Parks, recreation, and cultural	5,043,890	-	955,495	-	5,999,385
Community development	1,007,444	2,929,937	-	466,048	4,403,429
Nondepartmental	3,356,058	-	-	-	3,356,058
Debt service:					
Principal	3,812,362	-	-	-	3,812,362
Interest	2,461,084	-	-	-	2,461,084
Capital outlay	-	-	11,061,055	-	11,061,055
Total expenditures	81,171,246	2,929,937	12,016,550	4,021,714	100,139,447
Excess (deficiency) of revenues over expenditures	(7,707,441)	(223,239)	(7,570,767)	(578,832)	(16,080,279)
OTHER FINANCING SOURCES (USES)					
Proceeds of long-term capital -related debt	8,647,271	-	-	-	8,647,271
Proceeds from refunding bonds issued	23,490,000	-	-	-	23,490,000
Payment to bond refunding escrow agent	(32,147,294)	-	-	-	(32,147,294)
Transfers in	11,035,897	-	3,447,214	603,224	15,086,335
Transfers out	(4,206,351)	-	-	-	(4,206,351)
Total other financing sources and uses	6,819,523	-	3,447,214	603,224	10,869,961
Net change in fund balances	(887,918)	(223,239)	(4,123,553)	24,392	(5,210,318)
Fund balances - beginning of year	24,366,587	1,504,174	7,344,662	2,704,258	35,919,681
Fund balances- end of year	\$ 23,478,669	\$ 1,280,935	\$ 3,221,109	\$ 2,728,650	\$ 30,709,363

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2004

Reconciliation of the Revenues, Expenditures
Sheet to the Statement of Activities

Net change in fund balances - total governmental funds \$ (5,210,318)

Amount reported for governmental activities in the
Statement of Activities is different because:

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities the cost of these assets
is allocated over their estimated useful lives and reported as
depreciation expense. This is the amount by which capital outlays
exceeded depreciation.

Capital Outlay - City	\$ 5,876,051	
Depreciation - City	(2,363,143)	
Depreciation - Schools	<u>(1,923,440)</u>	1,589,468

Repayment of debt principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the Statement of Net Assets.
Issuance of new debt increases long-term liabilities in the Statement of Net Assets.

Repayment of bond principal	3,812,362	
Refunding of principal debt	32,147,294	
Proceeds from issuance of new debt	<u>(28,574,764)</u>	7,384,892

Some expenses reported in the Statement of Activities, such as
compensated absences, do not require the use of current financial
resources and therefore are not reported as expenditures in
governmental funds.

(940,029)

Some revenues and expenditures are not accrued in the governmental funds but are shown
as liabilities in the Statement of Net Assets.

Decrease in deferred revenue	(410,240)	
Decrease in accrued interest	(105,070)	
Changes in internal services	<u>229,896</u>	

(285,414)

Internal service funds are used by management to charge the cost
of certain activities, such as insurance and printing, to individual funds.
The net loss of certain internal service funds is reported with
governmental activities.

(523,840)

Changes in net assets of governmental activities

\$ 2,014,759

The accompanying notes are an integral part of these financial statements.

STATEMENT OF NET ASSETS - ENTERPRISE FUNDS

June 30, 2004

	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	Governmental Internal Service Funds
ASSETS							
Current assets							
Cash and investments	\$ 1,320,764	\$ 2,185,630	\$ 7,851,263	\$ 19,732,883	\$ 212,725	\$ 31,303,265	\$ 4,477,229
Cash and investments - held by fiscal agents	-	-	-	14,000	-	14,000	59,990
Receivables - net	564,453	594,727	1,230,799	7,171,448	8,012	9,569,439	1,489
Due from other governments	-	-	-	-	408,205	-	-
Inventories	-	298,094	896,597	1,296,729	-	2,493,420	89,262
Pension asset	-	127,659	75,728	366,586	207,476	777,449	61,461
Total current assets	1,885,217	3,206,110	10,054,387	28,583,646	836,418	44,565,778	4,689,431
Noncurrent assets							
Restricted cash and investments	434,250	4,243,482	1,845,518	15,597,767	-	22,121,017	-
Capital assets:							
Land and improvements	63,945	60,477	14,847	549,413	509,232	1,197,914	-
Construction in progress	3,608,677	4,871,374	5,499,677	11,004,962	-	24,984,890	-
Buildings, structures, and improvements	36,232,922	32,453,466	27,573,906	109,300,326	2,525,015	208,085,835	-
Equipment	27,442,117	11,663,108	1,185,764	4,198,333	2,041,043	46,530,365	8,855,892
Less - accumulated depreciation	(21,272,895)	(17,099,618)	(10,900,624)	(44,848,388)	(3,364,681)	(97,486,206)	(6,559,327)
Total noncurrent assets - net	48,509,016	36,192,289	25,219,088	95,802,413	1,710,609	205,433,415	2,296,505
Total assets	48,394,233	39,398,399	35,273,475	124,386,059	2,547,027	249,999,193	6,985,936
LIABILITIES							
Current liabilities							
Accounts payable	77,190	147,785	1,242,154	3,787,414	139,623	5,394,166	120,584
Accrued interest	235,428	161,920	24,650	117,411	1,267	540,676	1,971
Due to primary government	-	-	-	-	107,167	107,167	-
Refundable deposits	-	-	-	1,899,402	-	1,899,402	-
Pension liability	1,542	-	-	-	-	1,542	-
Deferred revenue	-	-	-	-	-	-	-
Long-term liabilities - due within one year	2,004,608	1,340,100	219,093	833,715	36,360	4,433,876	9,305
Total current liabilities	2,318,788	1,649,805	1,485,897	6,637,942	284,417	12,376,829	4,723
Noncurrent liabilities							
Long-term liabilities - due in more than one year	16,739,218	11,451,493	1,902,086	7,709,276	106,837	37,908,910	225,173
Compensated absences	-	153,442	119,343	241,341	61,623	575,749	-
Total noncurrent liabilities	16,739,218	11,604,935	2,021,429	7,950,617	168,460	38,484,659	225,173
Total liabilities	19,057,996	13,254,740	3,507,326	14,588,559	452,877	50,861,488	361,756
NET ASSETS							
Invested in capital assets - net of related debt	27,330,795	19,193,081	21,280,287	71,717,448	1,580,446	141,102,057	2,094,438
Restricted for incomplete capital projects	497,036	4,243,482	1,845,518	15,678,573	-	22,264,609	-
Unrestricted	1,508,128	2,707,096	8,640,344	22,401,479	513,704	35,770,751	4,529,742
Total net assets	\$ 29,335,959	\$ 26,143,659	\$ 31,766,149	\$ 109,797,500	\$ 2,094,150	\$ 199,137,417	\$ 6,624,180

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS-
ENTERPRISE FUNDS

Year Ended June 30, 2004

	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	Governmental Internal Service Funds
OPERATING REVENUES							
Charges for services	\$ 6,918,502	\$ 5,223,867	\$ 25,999,471	\$ 55,491,259	\$ 3,208,290	\$ 96,841,389	\$ 4,688,425
OPERATING EXPENSES							
Purchased services	-	-	19,242,588	28,705,111	-	47,947,699	-
Production	-	-	167,537	501,505	-	669,042	-
Transmission	2,599,367	1,009,728	-	2,096,622	-	5,705,717	-
Engineering	-	97,689	109,293	137,127	-	344,109	-
Distribution	1,158,200	449,610	699,696	2,693,014	-	5,000,520	4,860,029
Services	84,769	334,837	348,250	-	4,194,309	4,962,165	-
Depreciation	1,162,648	1,094,197	709,045	2,096,622	290,420	5,352,932	-
Meters/regulators	-	72,282	242,110	307,748	-	622,140	-
General and administrative	446,997	536,929	1,036,550	3,002,533	-	5,023,009	-
Total operating expenses	5,451,981	3,595,272	22,555,069	39,540,282	4,484,729	75,627,333	4,860,029
Operating income (loss)	1,466,521	1,628,595	3,444,402	15,950,977	(1,276,439)	21,214,056	(171,604)
NONOPERATING REVENUES (EXPENSES)							
Jobbing income (loss)	-	-	53,583	74,396	-	126,809	-
Rental income	-	(1,170)	-	-	17,404	17,404	-
Recovered cost	-	5,329	9,811	481,561	14,273	510,974	-
Gain on sale of capital assets	-	1,557	184,260	31,242	2,600	219,659	7,844
Federal and state grants	13,528	74,297	15,657	23,947	623,768	751,197	-
In-kind contributions	-	-	-	-	105,600	105,600	-
Interest income	-	61,000	-	-	-	61,000	-
Interest expense	(852,232)	(607,953)	(112,096)	(490,197)	(3,952)	(2,066,430)	(10,080)
Total nonoperating revenues (expenses)	(838,704)	(466,940)	151,215	120,949	759,693	(273,787)	(2,236)
Income (loss) before contributions and transfers	627,817	1,161,655	3,595,617	16,071,926	(516,746)	20,940,269	(173,840)
Capital contributions	48,004	112,750	23,849	24,542	-	209,145	-
Transfers in	-	-	-	-	155,911	155,911	-
Transfers out	-	-	(2,475,484)	(8,210,411)	-	(10,685,895)	(350,000)
Total	48,004	112,750	(2,451,635)	(8,185,869)	155,911	(10,320,839)	(350,000)
Change in net assets	675,821	1,274,405	1,143,982	7,886,057	(360,835)	10,619,430	(523,840)
Total net assets - beginning of year	28,660,138	24,869,254	30,622,167	101,911,443	2,454,985	188,517,987	7,148,020
Total net assets - end of year	\$ 29,335,959	\$ 26,143,659	\$ 31,766,149	\$ 109,797,500	\$ 2,094,150	\$ 199,137,417	\$ 6,624,180

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS

Year Ended June 30, 2004

	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	Governmental Internal Service Funds
Cash flows from operating activities							
Received from customers	\$ 7,087,369	\$ 5,181,939	\$ 26,031,296	\$ 54,874,231	\$ 3,270,420	\$ 96,445,255	\$ 4,770,407
Payments to suppliers for goods and services	(3,568,590)	(1,484,313)	(20,613,578)	(31,999,050)	(1,709,681)	(59,375,212)	(3,500,673)
Payments to employees for services	(462,760)	(1,295,782)	(1,234,265)	(4,337,315)	(1,933,887)	(9,264,009)	(697,639)
Payments to internal service funds for goods and services	(195,035)	(45,804)	(62,730)	(208,638)	(300,424)	(812,631)	(32,472)
Nonoperating revenue	-	5,716	63,393	587,199	31,677	687,985	-
Net cash from operating activities	2,860,984	2,361,756	4,184,116	18,916,427	(641,895)	27,681,388	539,623
Cash flows from noncapital financing activities							
Transfers from other funds	-	-	-	-	155,911	155,911	-
Transfers to other funds	-	-	(2,475,484)	(8,210,411)	-	(10,685,895)	(350,000)
Operating grants received	-	74,297	-	-	261,269	335,566	-
Net cash from noncapital financing activities	-	74,297	(2,475,484)	(8,210,411)	417,180	(10,194,418)	(350,000)
Cash flows from capital and related financing activities							
Acquisition of capital assets	(1,175,836)	(4,182,892)	(3,509,533)	(8,305,815)	(183,118)	(17,356,994)	(503,748)
Principal payments on long-term debt	(1,422,976)	(879,032)	(117,522)	(519,028)	(21,060)	(2,959,618)	(32,758)
Interest payments on long-term debt	(886,682)	(626,681)	(104,626)	(455,229)	(4,414)	(2,077,632)	(6,867)
Proceeds from sale of capital assets	10,085	62,336	146,717	12,954	-	232,092	30,267
Contributed capital	48,004	112,750	23,849	24,542	-	209,145	-
Net cash from capital and related financing activities	(3,427,405)	(5,513,319)	(3,561,115)	(9,242,576)	(208,592)	(21,953,007)	(513,106)
Cash flows from investing activities							
Interest on investments	-	61,000	-	-	13,451	74,451	131,407
Net activity in investment securities	(233,723)	(315,114)	(80,503)	(274,167)	(16,199)	(919,706)	(143,656)
Net cash from investing activities	(233,723)	(254,114)	(80,503)	(274,167)	(2,748)	(845,255)	(12,249)
Net increase (decrease) in cash and investments	(800,144)	(3,331,380)	(1,932,986)	1,189,273	(436,055)	(5,311,292)	(335,732)
Cash and investments - beginning of year	2,555,158	9,760,492	11,629,767	34,155,377	648,780	58,749,574	4,872,951
Cash and investments - end of year	\$ 1,755,014	\$ 6,429,112	\$ 9,696,781	\$ 35,344,650	\$ 212,725	\$ 53,438,282	\$ 4,537,219

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS

Exhibit G
(Continued)

Year Ended June 30, 2004

	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	Governmental Internal Service Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities							
Operating income (loss)	\$ 1,466,521	\$ 1,628,595	\$ 3,444,402	\$ 15,950,977	\$ (1,276,439)	\$ 21,214,056	\$ (171,604)
Adjustments:							
Depreciation charged to operations	1,162,648	1,094,197	709,045	2,096,622	290,420	5,352,932	548,918
In-kind contributions	-	-	-	-	105,600	105,600	26
Change in noncash employee benefits charged to operations	9,666	(16,321)	(8,742)	(28,882)	17,953	(26,326)	(5,734)
Nonoperating revenue	-	5,716	63,393	587,199	31,677	687,985	-
Changes in assets and liabilities:							
Receivables	168,866	(41,928)	31,825	(681,838)	62,131	(460,944)	72,676
Reserve for uncollectibles	(2,300)	1,200	3,000	19,400	-	21,300	-
Inventories	-	(298,095)	(103,355)	(133,200)	-	(534,650)	2,341
Accounts payable	55,583	(11,608)	44,548	1,041,339	63,381	1,193,243	83,895
Deferred revenue	-	-	-	-	-	-	9,305
Due to other funds	-	-	-	-	63,382	63,382	-
Refundable deposits	-	-	-	64,810	-	64,810	-
Net cash provided (used) by operating activities	\$ 2,860,984	\$ 2,361,756	\$ 4,184,116	\$ 18,916,427	\$ (641,895)	\$ 27,681,388	\$ 539,623

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2004

	Employees' Retirement System
ASSETS	
Cash	\$ 3,275
Receivables:	
Employer's contributions	277,764
Accrued interest and dividends	202,053
Total receivables	<u>479,817</u>
Investments - at fair value:	
Common stocks	83,993,126
Corporate bonds	23,754,275
Foreign stocks	25,079,565
U.S. Government obligations	19,095,747
Other investments	13,752,867
Total investments	<u>165,675,580</u>
Total assets	<u>166,158,672</u>
LIABILITIES	
Accounts payable	<u>154,683</u>
Total liabilities	<u>154,683</u>
NET ASSETS	
Held in trust for pension benefits	<u>\$ 166,003,989</u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2004

	<u>Employees' Retirement System</u>
ADDITIONS	
Contributions:	
Employer	\$ 2,434,174
Purchase of service	<u>31,339</u>
Total contributions	<u>2,465,513</u>
Investment income:	
Net increase in fair value of investments	18,773,693
Interest	1,518,478
Dividends	<u>181,232</u>
Total investment income	20,473,403
Less - investment expenses	<u>(725,138)</u>
Net investment income	<u>19,748,265</u>
Total additions	<u>22,213,778</u>
DEDUCTIONS	
Benefits paid to participants	6,523,743
Refunds of contributions	116,135
Administrative expenses	<u>94,015</u>
Total deductions	<u>6,733,893</u>
Change in net assets	15,479,885
Net assets held in trust for pension benefits - beginning of year	<u>150,524,104</u>
Net assets held in trust for pension benefits - end of year	<u>\$ 166,003,989</u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF NET ASSETS - COMPONENT UNITS

June 30, 2004

	Danville Public Schools	Industrial Development Authority	Total
ASSETS			
Cash and investments	\$	\$	\$
Restricted		900,000	900,000
Unrestricted		414,004	2,908,036
Cash held by fiscal agents	2,494,032	-	111,482
Receivables - net	111,482	-	134,340
Due from City	32,480	101,860	1,110,896
Due from other governments	1,110,896	-	3,467,956
Prepayments	3,467,956	-	92,567
Inventories	92,567	-	914,358
Capital assets:	914,358	-	
Land and construction in progress	3,696,588	502,426	4,199,014
Other capital assets - net	1,314,863	3,840,368	5,155,231
Total assets	13,235,222	5,758,658	18,993,880
LIABILITIES			
Accounts payable	462,549	-	462,549
Accrued salaries	3,231,192	-	3,231,192
Accrued payroll taxes	247,957	-	247,957
Accrued expenses	-	13,948	13,948
Deferred revenue	672,240	-	672,240
Long-term liabilities:			
Due within one year	1,376,235	-	1,376,235
Due in more than one year	3,144,926	3,116,776	6,261,702
Total liabilities	9,135,099	3,130,724	12,265,823
NET ASSETS			
Invested in capital assets - net of related debt	5,011,451	340,667	5,352,118
Restricted for:			
Retainage and security deposit	-	900,000	900,000
Special programs	1,228,282	-	1,228,282
Unrestricted	(2,139,610)	1,387,267	(752,343)
Total net assets	\$ 4,100,123	\$ 2,627,934	\$ 6,728,057

The accompanying notes are an integral part of these financial statements.

CITY OF DANVILLE, VIRGINIA
STATEMENT OF ACTIVITIES - COMPONENT UNITS

Year Ended June 30, 2004

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Danville Public Schools	Industrial Development Authority	Totals	
DANVILLE PUBLIC SCHOOLS								
Education	\$ 64,596,022	\$ 1,020,093	\$ 30,144,042	\$ 6,743,687	\$ (26,688,200)	\$ -	\$ (26,688,200)	
INDUSTRIAL DEVELOPMENT AUTHORITY								
Economic Development	1,486,251	227,000	2,458,111	-	-	1,198,860	1,198,860	
Total component units	\$ 66,082,273	\$ 1,247,093	\$ 32,602,153	\$ 6,743,687	(26,688,200)	1,198,860	(25,489,340)	

General revenues:

City of Danville	18,488,646	-	18,488,646
State aid	6,529,307	-	6,529,307
Investment income	187,758	2,079	189,837
Miscellaneous	1,408,873	-	1,408,873
Total general revenues	26,614,584	2,079	26,616,663
Change in net assets	(73,616)	1,200,939	1,127,323
Net assets - beginning of year	4,173,739	1,426,995	5,600,734
Net assets - end of year	\$ 4,100,123	\$ 2,627,934	\$ 6,728,057

The accompanying notes are an integral part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

June 30, 2004

1. Organization and Nature of Operations

Reporting Entity

The **City of Danville** (City), located in southside Virginia at the North Carolina border, was founded in 1793 and chartered in 1830. The City covers an area of approximately 44 square miles and has a population of approximately 46,600.

The City is governed under the City Manager-Council form of government. The City engages in a comprehensive range of municipal services, including general government administration, public safety and administration of justice, education, health, welfare, housing and human service programs, transportation and environmental services, planning, community development and recreation, cultural, library, and historic activities.

2. Summary of Significant Accounting Policies

The financial statements of the City of Danville, Virginia have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB). The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The City follows GASB Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*. GASB Statement No. 34 adds the following components to the financial statements:

- 1. Management's Discussion and Analysis** – A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.
- 2. Government-wide financial statements** – These include the financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement of Net Assets and the Statement of Activities.
- 3. Statement of Net Assets** – The Statement of Net Assets displays the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government are broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

4. **Statement of Activities** - The Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).
5. **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of the state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The City and many other governments revise their original budgets over the course of the year for a variety of reasons.

As required by accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations, therefore data from these units would be combined with data of the primary government. The City has no component units that meet the requirements for blending. The discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. Each discretely presented component unit has a June 30 fiscal year-end.

B. Government-wide and Fund Accounting Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund accounting financial statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund accounting financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are: (a) presented on a consolidated basis by column, and (b) reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities is reported using the economic resources measurement focus and the accrual basis of accounting which reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related charges for services, operating and capital grants, and contributions. The charges for services must be directly associated with the function (public safety, public works, health and welfare, etc.) or be a business-type activity. The City does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile fund based financial statements with the governmental column of the government-wide presentation.

The City's fiduciary funds (which have been redefined and narrowed in scope) are presented in the fund financial statements by type (pension). Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The focus of the revised model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds (by category), and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds

Governmental funds are those through which most governmental functions typically are financed.

a. General Fund

The General Fund is the primary operating fund of the City. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for services, and investment income. A significant part of the General Fund's revenues is transferred to other funds and component units, principally to finance the operations of the City of Danville's Public Schools.

b. Community Development

The Community Development Fund accounts for all financial resources used for the growth of the City through state, federal, and local grants and donations. This fund is accounted for as a major governmental fund for reporting purposes by the City.

c. Capital Projects Fund

The Capital Projects Fund accounts for all financial resources used for the acquisition or construction of major capital facilities not being financed by Enterprise or nonexpendable trust funds. The Capital Projects Fund is considered a major governmental fund for reporting purposes.

d. Special Revenue Fund

The Special Revenue Fund accounts for revenue derived from specific sources (other than major capital projects) that are restricted by legal and regulatory provisions to finance specific activities. The Special Revenue Fund is considered a nonmajor governmental fund for reporting purposes.

e. Cemetery Fund

The Cemetery Fund accounts for the financial resources used for the maintenance of the City's cemetery. All funds are generated by the sale of perpetual care contracts, and only the interest is used for the benefit of the primary government. This fund is accounted for as a permanent (nonmajor) fund for governmental reporting purposes.

f. Internal Service Fund

The Internal Service Fund accounts for the financing of goods or services provided by one department to other departments or agencies of the City on a cost-reimbursement basis. The Internal Service Fund is included in governmental activities for government-wide reporting purposes. The excess revenue or expenses for the fund are allocated to the appropriate functional activity.

Major internal service funds are used to account for the activities of the City's motor pool, central printing, and insurance.

2. Enterprise Funds

Enterprise Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through Enterprise funds. The measurement focus is on determination of net income, financial position, and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel, and depreciation. In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Enterprise Funds and Other Governmental Entities That Use Enterprise Fund Accounting*, the City has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for Enterprise funds.

Enterprise Funds or Business Funds

Enterprise Funds account for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The City's major enterprise funds are used to account for wastewater, water, gas, and electricity.

3. Fiduciary Funds

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governments. The only major fiduciary fund of the City is used to account for the City's Employee Retirement System activity. For accounting measurement purposes, the Pension Trust Fund is accounted for in essentially the same manner as Enterprise Funds. The Pension Trust Fund accounts for the assets of the City's pension plan. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation. Fiduciary funds are not included in the government-wide financial statements.

As required by accounting principles generally accepted in the United States, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize these are legally separate from the primary government.

Discretely Presented Component Units

Danville Public Schools are organized as an independently governed school system for operating the public schools in the City. Board members are appointed by City Council by authority of the City Charter. Danville Public Schools are financially dependent on appropriations by the City Council for current operations, and any surplus funds are returned to the City annually. In addition, major capital improvements are financed by long-term debt issued by the City. In accordance with requirements of the Auditor of Public Accounts of the Commonwealth of Virginia, Danville Public Schools are considered to be a major component unit of the City. The City has elected to aggregate the discretely presented component units and has not shown the Danville Public Schools as a major fund.

The Industrial Development Authority (IDA) was created as a political subdivision of the Commonwealth of Virginia by ordinance of the City Council pursuant to provisions of the *Industrial Revenue Bond Act* of the Code of Virginia. Seven directors appointed by the City Council of Danville, Virginia govern the IDA. The City provides the majority of the IDA's funding. The IDA operates as a component unit solely for the purpose of economic development for the City of Danville. It is authorized to acquire, own, lease, and dispose of properties to the end that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Virginia.

These financial statements are shown on Exhibits J and K.

Complete financial statements for each of the individual components may be obtained at the entity's offices:

Danville Public Schools
P.O. Box 9600
Danville, Virginia 24543

Industrial Development Authority of Danville
P.O. Box 3300
Danville, Virginia 24543

Jointly Governed Organizations

City Council, in conjunction with the Board of Supervisors of Pittsylvania County, Virginia (County), established Danville-Pittsylvania Community Services (DPCS) in 1972 to implement the provisions of Chapter 10 of Title 37.1 of the *Code of Virginia* (1950), as amended. The primary function of DPCS is the establishment and operation of mental health, mental retardation, and substance abuse programs within the jurisdictional limits of the City and County. Seven members of the fifteen-member board of directors are appointed by City Council, and the County's Board of Supervisors appoints the remaining eight members. The Board of Directors approves its own budget and maintains oversight of all programs. Most of the funding for DPCS comes from state and federal grants, as well as from charges for services. The City and County provide some financial assistance, but DPCS is not financially dependent on the City or the County. While not a component unit of the City or the County, DPCS is considered to be a jointly governed organization since neither the City nor the County has determinable ongoing financial interests, in, or responsibilities for, DPCS. The City is the fiscal agent for federal and state funds of DPCS, and maintains an agency fund to properly account for this responsibility. During the year ended June 30, 2004, the City provided \$158,744 in funding for Danville-Pittsylvania Community Services. In addition, state and federal grants totaling \$4,267,046 passed through the City to DPCS.

In July 1995, City Council approved an intergovernmental agreement with Pittsylvania County, Virginia, establishing the Danville-Pittsylvania Community Policy and Management Board (Board). This Board was created under the provisions of the *Virginia Comprehensive Services Act* for at-risk youth and families, establishing a Family Assessment Team to review individual needs and to make recommendations to the Board. Pittsylvania County acts as fiscal agent for the Board and provides office space and personnel. The City of Danville has agreed to reimburse the County for 50% of the operating costs as well as provide legal services. While not a component unit of the City or the County, the Board is considered to be a jointly governed organization, since neither the City nor the County has determinable ongoing financial interests in, or responsibilities for, the Board. During the year ended June 30, 2004, the City provided \$ 45,823 in funding for the Danville-Pittsylvania Community Policy and Management Board.

In 2001, the Danville-Pittsylvania Regional Industrial Facility Authority (Facility Authority) was created by ordinance of the Board of Supervisors of Pittsylvania County, Virginia, and the City Council of Danville, Virginia, to promote and further the purposes of the *Virginia Regional Industrial Facilities Act*, Chapter 64, Title 15.2 of the *Code of Virginia* (1950), as amended (Facility Act). The Facility Authority is an entity jointly owned by the City of Danville and Pittsylvania County and is a political subdivision of the Commonwealth. The Facility Authority is empowered, among other things, to borrow money to pay the costs of real estate and all improvements located in industrial parks intended to be occupied by manufacturing, warehousing, distribution, office or other commercial enterprise. In addition, the Facility Authority is authorized under the Facility Act to issue revenue bonds to finance facilities for such enterprises and to refund such bonds. The Facility Authority has no taxing power.

The Facility Authority has the following commitments at June 30, 2004:

- \$15,680,081 contract for construction of the Institute for Advanced Learning and Research's new building (cost to complete of approximately \$450,000).
- \$2,140,591 contract for Cyber Park access road (cost to complete of approximately \$50,000)
- \$2,047,800 contract for VIR Wastewater project (cost to complete of approximately \$1,950,000)

- \$442,000 engineering contract for Institute Annex building (cost to complete of approximately \$430,000)
- \$777,355 contract for Cane Creek Centre access road (cost to complete of approximately \$516,000)

C. Basis of Accounting

The government-wide Statement of Net Assets and Statement of Activities, all enterprise funds, and private purpose trust fund and pension trust funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the Statement of Net Assets. Enterprise fund-type operating statements present increases; e.g., revenues and decreases; e.g., expenses in equity as changes in net assets. Long-term assets and long-term liabilities are included in the government-wide statements.

The Statement of Net Assets and Statement of Activities of the enterprise funds and fiduciary funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet in the funds statements. Operating statements of these funds present increases; i.e., revenues and other financing sources and decreases; i.e., expenditures and other financing uses as changes in fund balances.

The fund financial statements of the General, Special Revenue, Capital Projects, and nonmajor governmental funds are maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenues and other local taxes, the term "available" is limited to collection within forty-five days of the fiscal year-end. Levies made prior to the fiscal year-end, but which are not available, are deferred. Investment income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

D. Encumbrances

Encumbrance accounting, the recording of purchase orders, contracts, and other monetary commitments in order to reserve an applicable portion of an appropriation, is used as an extension of formal budgetary control in the General, Capital Projects funds, and Community Development fund. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year. These encumbrances are subject to reappropriation by Council ordinance in the succeeding fiscal year.

E. Cash and Investments

Cash resources of the individual funds, excluding cash held with fiscal agents in the General Fund, Special Revenue Fund, Capital Projects Fund, Enterprise funds, and Fiduciary funds, are combined to form a pool of cash and investments to maximize earnings. Investments in the pool consist of obligations of the Federal Government and are recorded at fair value. Income from pooled investments is allocated only when contractually or legally required. All investment earnings are allocated to the various funds based on equity in the investment pool.

For purposes of the statement of cash flows, the enterprise funds consider all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

The fair value of investments is based on quoted market prices; no investments are valued at cost. All investments in external investment pools are reported at fair value.

F. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis.

General Fund allowance	
Taxes receivable	\$ 464,738
Fines and forfeitures receivable	2,996,862
	<u>\$ 3,461,600</u>
Enterprise Fund allowance	
Consumer receivables - wastewater	106,000
Penalties receivable	53,600
	<u>\$ 159,600</u>

The component units' customer accounts receivable are considered fully collectible, and; therefore, an allowance for uncollectible accounts is not applicable to those receivables.

G. Inventory of Supplies and Prepaid and Other Assets

1. Primary Government

Inventories of consumable supplies are recorded at cost (determined on a first-in, first-out basis). Inventory in the General Fund consists of expendable supplies held for consumption. The costs are recorded as expenditures under the purchase method. Purchases of non-inventory items are recorded as expenditures under the consumption method, resulting in prepaid expenditures. Prepaid expenditures in reimbursable grants are offset by deferred revenue until expenditures are recognized. Inventories in the General Fund are costed on the first-in, first-out basis, and Enterprise Funds are costed by the moving-average cost method.

2. Component Units

Inventory for Danville Public Schools is comprised of food, supplies, and textbooks held for consumption. Quantities on hand at year-end are recorded at cost on the balance sheet with an offsetting reservation of fund balance, which indicates they do not constitute expendable available financial resources. The cost of textbooks is determined by current replacement cost adjusted for estimated wear and tear.

H. Capital Assets

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively to 1980. Depreciation is recorded on general capital assets on a government-wide basis. Capital outlays of the Enterprise Funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis. The capitalization threshold for capitalizing capital assets is \$5,000, and the infrastructure capitalization threshold is \$100,000. All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. The City does not capitalize historical treasures or works of art. The City maintains many items and buildings of historical significance. The City does not require that the proceeds from the sale of historical treasures or works of art be used to acquire other items for the collection.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings,

and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts, and any resulting gain or loss is included in the results of operations.

I. Compensated Absences and Other Employee Benefits

Expenditures for compensated absences and self-insured group hospitalization and workers' compensation in governmental funds are recorded when the obligations are paid. The current portions are not recorded as liabilities in governmental funds since these will not be liquidated with expendable available financial resources. In Enterprise funds, both the expenses and the liabilities are recorded as the benefits are earned. All liabilities, current and long-term, are recorded in the Government-wide Statement of Net Assets.

1. Vacation Pay

The City's policy regarding vacation pay allows for the accumulation of unused benefits. Unused vacation pay is paid upon termination of employment. The Danville Public Schools allows for the accumulation of vacation pay that may be used by employees when retiring early, but is not paid at termination.

2. Sick Pay

Accumulated sick leave benefits earned but unpaid at the end of the fiscal year are recorded as a liability at the balance sheet date. Accumulated sick leave is paid to employees upon retirement from employment at a rate of \$1.50 per hour up to a maximum of 960 hours (\$1,440 per employee). Up to one year of unused sick leave may be applied to total service years upon retirement.

3. Group Hospitalization

All permanent employees of the City, including elected officials and their staff, are eligible to participate in the City's group insurance program. The City contributes 70% of the premium for active participating employees. The City is self-insured for group hospitalization, with the exception of \$125,000 stop loss coverage.

4. Workers' Compensation

The City is self-insured for all workers' compensation claims. There were no significant claims incurred but not reported as of June 30, 2004. Liabilities are estimated on a case-by-case review of all outstanding claims by an independent claims agent.

5. Other Postemployment Benefits

All permanent employees of the City are eligible to continue their hospitalization and group life insurance into retirement. The City contributes 20% of the premium for retirees.

Danville Public Schools allow employees who participate in the Supplemental Retirement Plan to continue coverage under the School Board's health insurance program. The retirees pay the entire premium. Retirees who qualify to receive Virginia Retirement System (VRS) retirement benefits may continue in the VRS group life insurance program. The VRS does not charge a premium for this coverage.

J. Deferred Revenue

Included in deferred revenue in the Governmental Funds Balance Sheet is \$7,620,986 of property taxes not collected within forty-five days of year-end.

K. Long-Term Debt

For governmental fund types, bond premiums or discounts as well as issuance costs are recognized during the current period. Bond proceeds are reported as an other financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. For enterprise fund types, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which is not materially different from the effective

interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed in the year of issue.

L. Fund Balance

Reservations of fund balance represent amounts that can not be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Enterprise funds' contributed capital represents equity acquired through capital grants and capital contributions from developers, customers, or other funds.

1. Reservations of Fund Balance

Except for those required to comply with accounting standards, all reservations and designations of General Fund balance reflect City Council action in the context of adoption of the City's budget.

2. Encumbrances

These fund balances have been reserved for goods and services encumbered, or ordered, before the end of the fiscal year, for which delivery of goods and services have not been made prior to the close of the fiscal year.

3. Approved Capital Projects

These balances are reserved for capital projects that City Council has already approved.

4. Debt Service

This balance has been reserved for the accumulation of resources for the payment of general long-term debt principal.

3. Deposits and Investments

All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (Act), Section 2.1-359 et. seq of the *Code of Virginia* (1950), as amended, or covered by federal depository insurance.

A. Deposits

Primary Government

At year-end, the carrying value of the City's deposits with banks was \$4,996,983, and the bank balances were \$5,898,662. The entire bank balance was covered by federal deposit insurance or collateralized in accordance with the Act.

Under the Act, banks holding public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

However, all qualified banks' public deposits are considered 100% "insured" (per GASB Statement 3, paragraph 11) because the Act provides for additional assessments to be made. This means that if a qualified bank was to fail, all collateral in the pool would be used to cover the public deposits held at that bank. In addition, if the collateral were inadequate to cover all public deposits, additional amounts would be assessed on a pro rata basis to each member of the pool. Therefore, the Act ensures that there will be no loss of public funds and that makes the pool similar to depository insurance. At June 30, 2004, no balances of the primary government were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

Component Units

The carrying value of deposits for Danville Public Schools was \$1,334,554, and the bank balance was \$1,402,810. The entire bank balance was covered by federal depository insurance or collateralized in accordance with the Act at June 30, 2004.

At year-end, the IDA's deposits with banks were \$1,314,004. Of the bank balance, \$241,496 was covered by federal depository insurance, and \$1,072,508 was collateralized in accordance with the Act.

B. Investments

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, mutual fund shares of the Virginia State Non-Arbitrage Program (SNAP), commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The fair value of the investment in the LGIP is equal to the value of the pool shares. The Auditor of Public Accounts is the oversight body for the LGIP.

The Pension Trust Fund investments are handled by portfolio managers. Investment restrictions for the pension trust focus on investment mix and limiting the percentage of the total portfolio that may be invested in a given instrument.

The City's investments are categorized below to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered, or for which the City or its safekeeping agent holds the securities in the City's name. Category 2 includes uninsured or unregistered investments for which the counterparty's trust department holds the securities or its safekeeping agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or safekeeping agent but not in the City's name.

Primary Government

	Category			Cost	Fair Value
	1	2	3		
U.S. Government Obligations:					
Primary government	\$ -	\$ -	\$ 51,019,725	\$ 51,349,974	\$ 51,019,725
Primary government - debt escrow	-	-	688,607	688,607	688,607
Pension trust fund (PTF)	-	-	19,095,747	19,249,108	19,095,747
Corporate bonds (PTF)	-	-	23,754,275	17,954,503	23,754,275
Common stocks (PTF)	-	-	83,993,126	66,939,841	83,993,126
	<u>\$ -</u>	<u>\$ -</u>	<u>178,551,480</u>	<u>156,182,033</u>	<u>\$ 178,551,480</u>
Investments not subject to credit risk classification:					
Virginia Local Government Investment Pool (LGIP)			24,556,768	24,556,768	
Virginia State Non-Arbitrage Program (SNAP)			1,239,031	1,239,031	
Investment in timber land (PTF)			11,329,161	11,329,161	
Northern Trust mutual fund (PTF)			2,423,706	2,423,706	
Foreign stock mutual fund (PTF)			25,079,565	12,370,337	
Total investments			243,179,711	<u>\$ 208,101,036</u>	
Total carrying value of deposits (from prior page)			4,996,983		
Cash on hand			<u>1,745,550</u>		
Total cash on hand, deposits and investments			<u>\$ 249,922,244</u>		

The chart above lists the City's cash and investments as shown in Exhibit A of \$84,243,389 plus the Employees Retirement System's cash and investments of \$165,678,855, as shown on Exhibit H.

Component Units

At June 30, 2004, investment balances for Danville Public Schools were as follows:

	Carrying Value	Fair Value
Investments controlled by City		
Virginia Local Government Investment Pool	\$ 1,494,059	\$ 1,494,059

Below, is a reconciliation of total deposits and investments to the government-wide financial statements at June 30, 2004.

Primary Government

	Governmental Activities	Fiduciary Assets	Total
Cash and investments	\$ 30,573,458	\$ 3,275	\$ 30,576,733
Cash and investments with fiscal agents	231,649	165,675,580	165,907,229
Total	\$ 30,805,107	\$ 165,678,855	196,483,962

Component Units

Cash and investments	\$ 3,808,036	\$ 335,606	4,143,642
Cash held by fiscal agents	111,482	-	111,482
Total	\$ 3,919,518	\$ 335,606	4,255,124
Total cash and investments			\$ 200,739,086

Reserved cash and investments. Equity in pooled cash and investments was reserved for the following purposes:

	Reserved for Incomplete Projects	Reserved for Other Purposes	Total Reserved Cash
General fund:			
Encumbrances	\$ -	\$ 1,401,979	\$ 1,401,979
Debt service	-	688,607	688,607
Specific projects	-	386,316	386,316
	\$ -	\$ 2,476,902	\$ 2,476,902
Enterprise funds:			
Wastewater	\$ 497,036	\$ -	\$ 497,036
Water	4,243,482	-	4,243,482
Gas	1,845,518	-	1,845,518
Electric	15,678,573	-	15,678,573
	\$ 22,264,609	\$ -	\$ 22,264,609

4. Receivables

Receivables in the Fund financial statements at June 30, 2004 consist of the following:

Primary Government

	General	Community Development	Capital Projects	Nonmajor Governmental Funds	Total	Business-type Activities
Receivables:						
Taxes	\$ 11,391,388	\$ -	\$ -	\$ -	\$ 11,391,388	\$ -
Accounts	196,625	2,428	451,446	1,805	652,304	9,729,039
Interest	485,201	1,652	-	-	486,853	-
Loans	-	4,417,720	-	29,307	4,447,027	-
Intergovernmental	<u>2,902,835</u>	<u>433,618</u>	<u>1,498,729</u>	<u>930,291</u>	<u>5,765,473</u>	<u>408,205</u>
Gross receivables	14,976,049	4,855,418	1,950,175	961,403	22,743,045	10,137,244
Less -						
Allowances for uncollectible accounts	<u>(3,461,600)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,461,600)</u>	<u>(159,600)</u>
Receivables - net	<u>\$ 11,514,449</u>	<u>\$ 4,855,418</u>	<u>\$ 1,950,175</u>	<u>\$ 961,403</u>	<u>\$ 19,281,445</u>	<u>\$ 9,977,644</u>

Total receivables for the primary government of \$19,281,445 shown in the chart above plus the receivables in the Internal Service Funds of \$1,489 amount to the total of receivables - net and due from other governments shown on Exhibit A.

Component Units

	Danville Public Schools	Industrial Development Authority	Total
Receivable			
Intergovernmental	\$ 3,467,956	\$ -	\$ 3,467,956
Other	<u>32,480</u>	<u>101,860</u>	<u>134,340</u>
Total receivables	<u>\$ 3,500,436</u>	<u>\$ 101,860</u>	<u>\$ 3,602,296</u>

Property Taxes

The City levies real estate taxes on all real property on a fiscal year basis, at a rate enacted by the City Council on the assessed value of property (except public utility property) as determined by the Director of Real Estate Assessments of the City of Danville. The Commonwealth assesses public utility property. Neither the City nor the Commonwealth of Virginia imposes a limitation on the tax rate. All property is assessed at 100 percent of fair market value and reassessed each year as of July 1. The Director of Real Estate Assessments, by authority of City ordinance, prorates billings for property incomplete as of July 1, but completed during the year. Any taxes paid after the due date are subject to a 10% penalty.

Real estate taxes are billed in equal semi-annual installments due December 5 and June 5. Liens are placed on the property on the date real estate taxes are delinquent, and interest at the rate of 10% per annum is added to the delinquent tax and penalty, and must be satisfied prior to the sale or transfer of the property. Any uncollected amounts from previous years' levies are incorporated in the taxes receivable balance. The tax rate during 2004 and 2003 was \$0.800 per \$100 of assessed value.

Personal property tax assessments on tangible business property and all motor vehicles are based on 100 percent of fair market value of the property as of January 1 of each year. For a vehicle, the tax may be prorated for the length of time the vehicle has situs in the City. Personal property taxes do not create a lien on property; however, City vehicle decals, which are required by law for all vehicles garaged in the City, may not be issued to any individual having outstanding personal property taxes. Interest at the rate of 10% per annum is added to the delinquent tax and penalty. The taxes receivable balance at June 30, 2004 includes amounts not yet received from the January 1, 2003 levy due June 5, 2003.

These taxes are included as deferred revenue in the fund financial statements since these taxes are not considered to be available to liquidate liabilities of the current period. The tax rate during 2004 and 2003 was \$3.00 for motor vehicles and tangible property and \$1.50 for machinery and tools per \$100 of assessed value. In addition, any uncollected amounts from prior year levies are incorporated in the taxes receivable balance. Under the provisions of the Personal Property Tax Relief Act of 1998, the City received 70% percent of most taxpayers' assessments in FY 2004 for the State's share of the local personal property tax payment with the remainder collected by the City.

5. Capital Assets

The table below is a summary of the changes in capital assets for the fiscal year ended June 30, 2004.

Primary Government

	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets not being depreciated:				
Land and land improvements	\$ 6,561,339	\$ 151,476	\$ -	\$ 6,712,815
Construction in progress	12,573,511	9,356,230	19,045,257	2,884,484
Total capital assets not being depreciated	19,134,850	9,507,706	19,045,257	9,597,299
Other capital assets:				
Buildings	20,319,792	11,571,257	-	31,891,049
Infrastructure	26,057,940	274,126	-	26,332,066
Furniture and other equipment	14,089,250	573,043	183,760	14,478,533
Total other capital assets	60,466,982	12,418,426	183,760	72,701,648
Less - accumulated depreciation for:				
Buildings	(8,221,333)	(340,742)	-	(8,562,075)
Infrastructure	(10,234,284)	(1,434,175)	-	(11,668,459)
Furniture and other equipment	(10,969,150)	(588,226)	-	(11,557,376)
Total accumulated depreciation	(29,424,767)	(2,363,143)	-	(31,787,910)
	31,042,215	10,055,283	183,760	40,913,738
Assets transferred from Danville School Board for Senate Bill No. 276	77,837,094	-	-	77,837,094
Less - accumulated depreciation	(50,936,073)	(1,923,440)	-	(52,859,513)
	26,901,021	(1,923,440)	-	24,977,581
Other capital assets - net	57,943,236	8,131,843	183,760	65,891,319
Total capital assets - net	\$ 77,078,086	\$ 17,639,549	\$ 19,229,017	\$ 75,488,618

Depreciation was charged to governmental functions as follows:

General government administration	\$	1,091,270
Judicial administration		70,660
Public safety		612,383
Public works		188,426
Health and welfare		164,872
Parks, recreation, and cultural		117,766
Community development		117,766
Total	\$	<u>2,363,143</u>

Depreciation on the assets transferred by the Danville Public Schools was \$1,923,440. This expense is reflected in the education expense on the Statement of Activities.

Component Unit - Danville Public Schools

	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets not being depreciated:				
Land and land improvements	\$ 3,696,588	\$ -	\$ -	\$ 3,696,588
Construction in progress	16,637,348	-	16,637,348	-
Total capital assets not being depreciated	20,333,936	-	16,637,348	3,696,588
Other capital assets				
Buildings	41,576,335	18,729,160	-	60,305,495
Furniture and other equipment	19,802,774	-	385,400	19,417,374
Total other capital assets	61,379,109	18,729,160	385,400	79,722,869
Less -				
Total accumulated depreciation	50,155,082	510,544	-	50,665,626
Capital assets - net	31,557,963	18,218,616	16,251,948	29,057,243
Assets transferred to the City of Danville to match long-term debt	(28,763,468)	-	-	(28,763,468)
Total	\$ 2,794,495	\$ 19,239,704	\$ 17,022,748	\$ 5,011,451

Component Unit - Industrial Development Authority

Property Held for Lease/Sale

	Balance June 30, 2004	Balance June 30, 2003
Property held for lease:		
Land	\$ 381,580	\$ 381,580
Building	3,082,840	3,082,840
Construction in progress	120,846	-
	3,585,266	3,464,420
Less - accumulated depreciation	(127,823)	(50,752)
	3,457,443	3,413,668
Property held for sale:		
Building	885,351	885,351
Total	\$ 4,342,794	\$ 4,299,019

The Facility Authority leases its property under a long-term operating lease with Essel Propack America, LLC (Essel Propack). The lease agreement is for an initial term of five years beginning November 1, 2002 plus as many as four or five year renewal periods. The initial annual rental is in an amount of \$227,000. Subsequent renewals of the lease are intended to be based upon the amounts due by the Facility Authority on the combined amount of its loans for the purchase and improvement of the property.

Further, Essel Propack retains an option to purchase the property during the term of the lease, including any extensions thereof, for the principal balance owed by the Facility Authority on its initial loans totaling \$3,225,000.

The leased property is subject to a first lien deed of trust to American National Bank and Trust Company in an initial amount of \$1,625,000 and a second lien deed of trust to the Virginia Small Business Financing Authority in an initial amount of \$1,600,000. The balance of these two notes was \$3,116,776 at June 30, 2004.

Future estimated minimum rental payments due under the lease at June 30, 2004 were as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 227,000
2006	227,000
2007	<u>75,667</u>
	<u>\$ 529,667</u>

Land Held for Sale

Land held for sale is recorded at the lower of cost or market. Cost is determined by the acquisition price, if purchased, or at estimated fair value at the date of gift, if donated. Costs of property improvements are capitalized.

Enterprise Funds

The following is a summary of changes in capital assets for business-type activities for the year ended June 30, 2004:

	<u>Balance June 30, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
Business-type activities:				
Land	\$ 1,069,111	\$ 128,803	\$ -	\$ 1,197,914
Construction in progress	<u>14,570,607</u>	<u>10,414,083</u>		<u>24,984,690</u>
Total capital assets not being depreciated	<u>15,639,718</u>	<u>10,542,886</u>	<u>-</u>	<u>26,182,604</u>
Buildings	199,923,546	8,162,089	-	208,085,635
Equipment	47,119,642	164,380	753,945	46,530,077
Less - accumulated depreciation for				
Buildings	(67,795,269)	(6,164,064)	-	(73,959,333)
Equipment	<u>(23,526,873)</u>	<u>-</u>	<u>-</u>	<u>(23,526,873)</u>
Total accumulated depreciation	<u>(91,322,142)</u>	<u>(6,164,064)</u>	<u>-</u>	<u>(97,486,206)</u>
Other capital assets - net	<u>155,721,046</u>	<u>23,248,177</u>	<u>753,945</u>	<u>157,129,506</u>
Total capital assets - net	<u>\$ 171,360,764</u>	<u>\$ 33,791,063</u>	<u>\$ 753,945</u>	<u>\$ 183,312,110</u>

Property, plant, and equipment are stated at cost, less an allowance for accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated lives of the assets as follows:

Buildings	45 years
Equipment	3 - 25 years
Infrastructure	25 - 35 years

Capital outlays are reported as expenditures in the governmental funds; however, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. The adjustment from governmental funds to the government-wide statements are summarized as follows:

Primary Government

Capital outlay - City	\$ 11,061,055	\$
Capital outlay - City - not capitalized	<u>(5,185,004)</u>	
		5,876,051
Depreciation expense - City		(2,363,143)
Depreciation expense - Schools		<u>(1,923,440)</u>
Total adjustment		<u>\$ 1,589,468</u>

Component Unit - Danville Public Schools

Capital outlay	\$ 2,575,237
Depreciation expense	<u>(358,281)</u>
Total adjustment	<u>\$ 2,216,956</u>

6. Commitments and Contingencies

A. Litigation

The City is contingently liable with respect to lawsuits and other claims, which arise, in the ordinary course of its operations. It is the opinion of City management and the City Attorney that any losses not covered by insurance, which may ultimately be incurred as a result of the suits and claims, will not be material to the financial position of the City.

B. Federally Assisted Grant Programs

The City participates in a number of federally assisted grant programs. Although the City has been audited in accordance with the provisions of OMB Circular A-133, these programs remain subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, City management believes such disallowances, if any, will not be significant.

C. Contracts

The City has several construction and similar contracts in progress at June 30, 2004. The incomplete unbilled portion of these contracts represent financial commitments that have not been recorded in the financial statements, since they were not liabilities at June 30, 2004.

	<u>City of Danville</u>
Contracts	\$ 9,522,076
Less: paid or recorded as liabilities	<u>(2,643,045)</u>
	<u>\$ 6,879,031</u>

D. Contingent Liabilities

Primary Government

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

The City maintains an insurance fund to account for insurance transactions. The City is self-insured for all workers' compensation claims, comprehensive and collision for vehicles which cost less than \$100,000, property damage up to a deductible of \$10,000, and employee liability to the extent that it is not covered by another policy (see the schedule of insurance coverage in the statistical section of the City's Comprehensive Annual Financial Report). Liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Current market rates are used to discount claim liabilities.

The fleet insurance and commercial general liability insurance is provided under a pooled agreement with the Virginia Municipal Liability Pool (Pool), a public entity risk pool. The Pool has paid policy dividends on a regular basis. If the Pool should be in a deficit condition, it may levy an additional prorata assessment to members of the Pool, which may not exceed twice the members' annual contributions. The pool agreement does not address the question of member liability in case of a deficit condition. Claims have not exceeded coverage in any of the previous three years, and there were no reductions in coverage from the previous year.

Component Unit

Danville Public Schools is a member of the School System of Virginia Self-Insurance Association (Association), a public entity risk pool for workers' compensation insurance. All members of the Association have agreed to assume any liability under the Virginia Workers' Compensation Act for any, and all, member employers. The Association has operated at a profit and has declared dividends on a regular basis since Danville Public Schools entered the pool in 1982. Danville Public Schools has elected to have the Association hold its dividends in escrow as a reserve against possible future claims. At June 30, 2004 the cumulative amount of dividends held in escrow by the Association for the Danville Public Schools amounted to \$111,482.

E. Reimbursable Agreements

At June 30, 2004, the City had outstanding agreements representing reimbursements to developers for streets, sewers, and utility facilities. These agreements totaled \$1,304,198 with \$914,626 having qualified for reimbursement within terms of the agreements. The remaining balances will be accrued upon qualification.

F. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to retain risks of losses in those areas where it believes it is more economical to manage its risks internally and account for any claims settlement in the General Fund. Exceptions to the self-insurance program are made when insurance coverage is available and when premiums are cost effective. The City is covered by property/casualty insurance policies on real and personal property (except vehicles) and the following liability insurance policies as of June 30, 2004: public entity and public officials excess liability, medical and dental malpractice liability, voting booths, special events, vacant buildings, volunteer liability, non-owned aircraft liability, and commercial crime. The City maintains a blanket surety bond on all City workers who handle

funds and excess amounts of insurance on key officials. There were no material reductions in insurance coverage from coverage in the prior fiscal year nor did settlements exceed coverage for any of the past three fiscal years.

The following Constitutional Officers and City employees are covered by surety bonds issued by Lumberman's Mutual Casualty Co. in the amounts shown as of June 30, 2004:

Treasurer	\$ 500,000
Commissioner of Revenue	\$ 3,000
Clerk of Circuit Court	\$ 103,000
Sheriff	\$ 30,000
Treasurer, Director of Central Collections, and Director of Social Services	\$ 100,000
All other City employees, except police officers	\$ 500,000

G. Self-Insurance

The noncurrent portion of unpaid workers' compensation claims amounted to approximately \$1,959,800 as of June 30, 2004, and is reflected in the government-wide statements. The current portion is recorded as an accrued liability in the General Fund and the government-wide financial statements. Liabilities are reported when it is probable that losses have occurred, and the amounts of the losses can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported to date. Liabilities are determined using a combination of actual claims experience and actuarially determined amounts and include incremental claims, adjustment expense, and estimated recoveries. An independent contractor processes the public liability claims and the City records a provision and liability in the entity-wide statements and General Fund (current portion only) for an estimate of incurred but not reported claims.

Changes in the noncurrent portion of estimated claims payable for workers' compensation during the years ended June 30, 2004 and 2003 were as follows:

	<u>FY 2004</u>	<u>FY 2003</u>
Estimated claims payable at beginning of period	\$ 2,406,677	\$ 3,102,781
Current fiscal year claims and changes in estimates	99,200	-
Claim payments	<u>(546,077)</u>	<u>(696,104)</u>
Estimated claims payable at end of period	<u>\$ 1,959,800</u>	<u>\$ 2,406,677</u>

7. Long-Term Debt

A. Bonds Payable

The schedule below represents all bonds payable in the Governmental and Enterprise funds, for the year ended June 30, 2004:

CITY OF DANVILLE					
Description	Original Issue	Annual Amount	Interest Rate	Maturity	Outstanding June 30, 2004
General Improvements 84-85	\$ 1,000,000	\$ 50,000	7.00 - 9.00	% 6/1/05	50,000
General Improvements 87-88	1,000,000	50,000	6.00 - 8.00	12/1/07	200,000
School Series 1991B	2,688,260	92,300 - 174,163	4.85 - 6.60	7/15/11	1,245,709
School Series 2001B	6,512,513	296,368 - 371,160	3.10 - 5.10	7/15/21	5,916,839
School Series 2001B	5,210,006	237,088 - 296,928	3.10 - 5.10	7/15/21	4,733,474
School Series 2001B - Loan	2,500,000	125,000	3.10 - 5.10	7/15/21	2,250,000
School Referendum 92-93	12,100,000	385,000 - 940,000	2.70 - 5.625	8/1/13	1,200,000
Utility Revenue Refunding 93-94	1,645,000	45,000 - 130,000	2.60 - 5.30	10/1/07	326,250
Utility Revenue 93-94	2,900,000	47,228 - 110,003	4.50	6/1/14	1,795,343
Utility Revenue 94-95	300,000	12,829 - 19,148	4.50	6/1/14	173,152
General Improvements 94-95	9,300,000	250,000 - 760,000	5.20 - 7.00	4/1/15	430,000
General Improvements 95-96	7,500,000	375,000	4.80 - 6.00	5/1/16	1,125,000
General Improvements 96-97	6,550,000	330,000	4.875- 5.50	3/1/17	1,640,000
Utility Revenue 96-97	7,300,000	295,838	4.50	2/1/19	5,333,940
General Improvements & Refunding 97-98	19,035,000	775,000 - 1,630,000	4.25 - 5.00	4/1/18	12,695,000
General Improvements 98-99	4,100,000	205,000	3.75 - 5.00	3/1/19	3,075,000
General Improvements 01-02	16,960,000	130,000 - 1,645,000	2.32 - 5.00	8/1/14	16,300,000
General Improvements 2003A	9,675,000	1,040,000 - 1,760,000	2.00 - 3.00	8/1/09	9,675,000
General Improvements 2003B	5,595,000	450,000 - 665,000	3.00 - 4.00	2/1/14	5,595,000
General Improvements 2004A	8,220,000	125,000 - 1,000,000	2.00 - 4.00	5/1/17	8,220,000
					<u>\$ 81,979,707</u>

Debt service on the preceding long-term bonds in future years is as follows:

Fiscal Year Ending June 30,	Principal	Interest
2005	\$ 7,552,567	\$ 3,286,495
2006	7,770,246	2,949,111
2007	7,897,214	2,671,851
2008	7,942,250	2,390,382
2009	8,070,146	2,095,084
2010-2014	30,452,647	6,161,620
2015-2019	9,936,118	1,604,875
2020-2024	2,358,519	157,544
	<u>\$ 81,979,707</u>	<u>\$ 21,316,962</u>

Debt service for notes payable, reimbursement agreements, and capital lease obligations in future years is as follows:

Fiscal Year Ending June 30,	Principal	Interest
2005	\$ 1,400,857	\$ 692,473
2006	1,368,251	643,002
2007	1,392,063	592,893
2008	1,217,583	542,658
2009	1,058,350	487,259
2010-2014	4,472,308	1,724,718
2015-2019	3,798,948	609,539
2020-2024	264,492	6,902
	<u>\$ 14,972,852</u>	<u>\$ 5,299,444</u>

B. Governmental Obligation

The following table is a summary of the changes in long-term liabilities that are recorded in the Statement of Net Assets ended June 30, 2004:

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Due within 1 year
General obligation bonds	\$ 42,196,719	\$ 8,809,151	\$ 11,870,970	\$ 39,134,900	\$ 3,432,233
Notes payable	1,200,000	-	200,000	1,000,000	200,000
Reimbursement agreements	489,883	176,968	-	666,851	157,596
Capital lease obligations	16,604,635	-	3,935,981	12,668,654	780,947
Compensated absences	1,234,600	58,153	-	1,292,753	79,291
Worker's compensation	1,998,473	275,000	650,873	1,622,600	215,222
Other bond related items	1,659,465	563,332	794,228	1,428,569	-
Net pension asset	(2,531,561)	(45,340)	-	(2,576,901)	-
	<u>\$ 62,852,214</u>	<u>\$ 9,837,264</u>	<u>\$ 17,452,052</u>	<u>\$ 55,237,426</u>	<u>\$ 4,865,289</u>

Compensated absences and workers' compensation are typically paid from the General Fund.

C. Enterprise Debt

Following is a summary of the changes in long-term liabilities that are recorded in the Enterprise Funds for the year ended June 30, 2004:

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Due within 1 year
General obligation bonds	\$ 37,738,830	\$ 14,680,849	\$ 17,203,558	\$ 35,216,121	\$ 3,445,668
Revenue bonds	8,256,918	-	628,232	7,628,686	638,772
Reimbursement agreements	446,024	191,323	-	637,347	216,596
Compensated absences	338,221	67,451	114,132	366,446	84,439
Workers' compensation	408,204	-	71,004	337,200	48,401
Bond related items	(516,543)	(582,736)	167,986	(1,267,265)	-
	<u>\$ 46,671,654</u>	<u>\$ 14,356,887</u>	<u>\$ 18,184,912</u>	<u>\$ 42,918,535</u>	<u>\$ 4,433,876</u>

D. General Obligation Debt Limit

The Commonwealth of Virginia imposes a legal limit of 10% of the assessed valuation of taxable real property on the amount of general obligation borrowing which a City may issue. The City of Danville has independently set a lower debt limit of 7.5% of the assessed valuation. As of June 30, 2004, the City's aggregate general obligation indebtedness is approximately \$45 million less than the City's limit and \$89 million less than the Commonwealth's limit as summarized below.

	Legal Debt Margin
Assessed value (as of June 30, 2003) - taxable real property, including public service corporations	<u>\$ 1,765,839,000</u>
Legal debt limits:	
10% of assessed value (authorized by the Commonwealth for all cities)	\$ 176,583,900
Deduct amount of debt applicable to debt limit: Gross general debt*	<u>74,351,021</u>
Legal debt margin	<u>\$ 102,232,879</u>

*Debt applicable to debt limit excludes Revenue Bonds due to Section 10, Article VII of the Constitution of Virginia.

The City of Danville issued \$23,490,000 of general obligation refunding bonds in order to reduce the interest expense for future periods. The proceeds of this refunding were placed in trust with the escrow agent for all future debt service payments of general obligation debt associated with the original bonds. This resulted in savings of \$1,445,413 in interest for the life of the bonds. As a result, the bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by approximately \$1,176,418. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt.

E. Component Unit

Following is a summary of the changes in long-term liabilities that are recorded in the Danville Public Schools for the year ended June 30, 2004:

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Due within 1 year
Early retirement plans	\$ 2,773,101	\$ 1,130,528	\$ 931,776	\$ 2,971,853	\$ 841,244
Employee benefits	1,198,856	294,928	377,934	1,115,850	396,830
Contracts payable	565,657	-	132,199	433,458	138,161
	<u>\$ 4,537,614</u>	<u>\$ 1,425,456</u>	<u>\$ 1,441,909</u>	<u>\$ 4,521,161</u>	<u>\$ 1,376,235</u>

Debt service on the preceding component unit's early retirement plans and contracts payable for future years are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2005	\$ 979,405	\$ 96,293
2006	891,046	121,731
2007	730,952	116,122
2008	402,340	89,897
2009	318,431	80,072
2010-2014	83,137	42,032
	<u>\$ 3,405,311</u>	<u>\$ 546,147</u>

Following is a summary of the changes in the long-term liability that is recorded in the Industrial Development Authority for the year ended June 30, 2004:

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Due within 1 year
Deed of trust payable	\$ 3,178,731	\$ -	\$ 61,955	\$ 3,116,776	\$ 70,886

Estimated principal maturities at June 30, 2004 are as follows:

Fiscal Year Ending June 30,	Principal
2005	\$ 70,886
2006	74,647
2007	78,622
2008	82,825
2009	87,238
2010-2013	2,722,558
	<u>\$ 3,116,776</u>

8. Transfers

Funds are transferred each year from the General Fund to the Capital Projects Fund, Insurance Fund, and the Transportation Fund. The Capital Projects Fund and the Insurance Fund operate for the benefit of the City. The Transportation Fund is operated as an enterprise fund but the City has historically subsidized this fund since it is for the benefit of the citizens of Danville.

The Gas and Electric Funds transfer funds to the primary government in support of the City's growth and capital improvement plan. This allows the City to pay-as-you-go on its five-year capital improvement projects.

The schedule on the next page details the activities between funds of the primary government for the year ended June 30, 2004.

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds -			
General	\$ 11,035,897	\$ (4,206,351)	\$ 6,829,546
Capital projects	3,447,214	-	3,447,214
Special revenue	603,224	-	603,224
Insurance	-	(350,000)	(350,000)
	<u>\$ 15,086,335</u>	<u>\$ (4,556,351)</u>	<u>\$ 10,529,984</u>
Enterprise Funds -			
Gas	\$ -	\$ (2,475,484)	\$ (2,475,484)
Electric	-	(8,210,411)	(8,210,411)
Transporation	155,911	-	155,911
	<u>\$ 155,911</u>	<u>\$ (10,685,895)</u>	<u>\$ (10,529,984)</u>

9. Interfund Receivables/Payables

Interfund receivables and payables of individual funds result primarily from cash disbursements made by one fund for expenditures of another. Governmental expenditures are paid by the General Fund. These balances are summarized as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
City of Danville -		
General fund	\$ 968,895	\$ -
Community Development fund	-	523,658
Nonmajor fund:		
Special Revenue fund	-	445,237
	<u>\$ 968,895</u>	<u>\$ 968,895</u>
Danville Public Schools		
General fund	\$ -	\$ 852,705
Capital Projects fund	97,257	-
Nonmajor funds -		
Special Grants fund	498,455	-
Textbook	257,063	-
Cafeteria	-	70
	<u>\$ 852,775</u>	<u>\$ 852,775</u>

10. Due From Other Governments

	City of Danville	Enterprise Funds	Danville Public Schools
Commonwealth of Virginia -			
State grants	\$ 1,114,514	\$ 21,591	\$ 1,033,312
Sales taxes	549,399	-	-
Highway maintenance	1,790,901	-	-
Shared expenses	267,002	-	-
Social services	273,595	-	-
	<u>3,995,411</u>	<u>21,591</u>	<u>1,033,312</u>
Federal government -			
Federal grants	<u>1,770,062</u>	<u>386,614</u>	<u>2,434,644</u>
	<u>\$ 5,765,473</u>	<u>\$ 408,205</u>	<u>\$ 3,467,956</u>

11. Retirement Plans

The City participates in two public employee retirement systems. Part I of this note details the Employees Retirement System of the City of Danville (ERS), and Part II details the Virginia Retirement System (VRS). Disclosures concerning the Danville Public School's participation in the Virginia Retirement System is also included in Part II of this note.

The City follows Governmental Accounting Standards Board Statement No. 27 (GASB 27) – *Accounting for Pensions by State and Local Government Employers*. The Statement establishes standards for the measurement, recognition and display of pension expenditures and related liabilities, assets and note disclosures.

I. Employees' Retirement System of the City of Danville

A. *Plan Description*

The Employees' Retirement System of the City of Danville was established on January 1, 1946, and was placed under the management of a Board of Trustees for the purpose of providing retirement, disability, and death benefits for full-time permanent employees in accordance with Chapter 32 of the Danville City Code. The City makes contributions to the ERS, which acts as administrator of this single-employer defined benefit pension plan.

The ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Employees Retirement System of the City of Danville, PO Box 3300, Danville, Virginia 24543.

All full-time employees of the City, excluding Danville Public Schools employees and elected officials and their employees (who are covered under the Virginia Retirement System) are eligible to participate. Upon becoming a regular, full-time employee of the City, each employee is classified as a "general employee" or as a "public safety employee" (policeman or fireman). The two employee classes have different pension benefits and early service retirement allowances. As of June 30, 2004, employee membership in the ERS was as follows:

	General Employees	Public Safety Employees	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	417	129	546
Active plan participants:			
Vested	472	193	665
Nonvested	245	54	299
	717	247	964

The pension plan provides retirement, disability, and death benefits. After 5 years of creditable service, general employees who attain the age of 65 or who accumulated at least 30 years of creditable service and attain the age of 55 may retire with full benefits. Public Safety Employees who attain the age of 60 or who accumulated at least 30 years of creditable service and attain the age of 55 may retire with full benefits.

For general employees, the retirement allowance consists of an annuity equal to the amount provided by the contributions of the member up to the time of his or her retirement, plus a pension which will total an amount equal to 1/55th of the highest consecutive 3 years average salary, multiplied by the number of years of creditable service prior to January 1, 1956 (but not before January 1, 1946), plus 1.42% of the part of such compensation in excess of \$9,500, plus 1.82% of the part of such compensation in excess of \$9,500 multiplied by the number of years of creditable service after December 31, 1955. A general employee with at least 5 years of service may retire early after reaching the age of 55 and receive reduced benefits.

The retirement allowance for a public safety employee, if hired before October 1, 1991, consists of an annuity equal to the amount provided by the contributions of the member up to the time of his or her retirement, plus a pension which will total an amount equal to 1/50th of the final 3 years average salary multiplied by the number of years of creditable service after December 31, 1945. A public safety employee with at least 5 years of service may retire early after reaching the age of 55 and receive reduced benefits. A member with creditable service prior to January 1, 1946 receives an additional pension.

Pension provisions include disability benefits whereby a member who becomes totally and permanently incapacitated and who has completed 5 years of creditable service is eligible to receive a disability retirement allowance. The allowance begins at the time of the disability and is based on creditable service to date and a projection of creditable service assuming no disability. The allowance is offset by any workers' compensation benefits.

If, after 5 years of service, an active member should die at any time prior to retirement, an allowance shall be payable to either the spouse, minor child, or parent of the member. Such retirement allowance will be continued during the lifetime of such person, or in the case of a minor child, until such time as the child dies or attains majority. The beneficiary may elect to receive the member's accumulated contributions with interest in lieu of any other benefits under the ERS.

The Board of Trustees, based on actuarial estimates of future plan benefits to be paid, establishes contributions by active members. Since March 1, 1979, the City has assumed payment for the employees' contributions. Contributions for employees hired after September 30, 1991 are considered to be 100% City contributions. These contributions, like the City portion of pre-October 1, 1991 employees, vest after 5 years of creditable service. The contribution rate for employees hired before October 1, 1991 is currently 5% of earnable compensation for general employees and 6.5% of earnable compensation for public safety employees. The portion of contributions to the plan made by the City on behalf of these members vests immediately with the employees. The remainder of the contributions vests after 5 years of creditable service.

For the year ended June 30, 2004, the City's total payroll for all employees was \$37,704,382, and the City's total covered payroll amounted to \$31,645,327 of which \$22,582,983 was for general employees and \$9,062,343 was for public safety employees. Covered payroll refers to all compensation paid by the City to active employees covered by the ERS on which contributions to the plan are based.

B. Summary of Significant Accounting Policies

Basis of Accounting. The financial statements of the ERS are prepared on the accrual basis of accounting. Contributions from the City are recognized as revenue in the period in which the employees provide services to the City. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment income is recognized as it is earned. The net appreciation or depreciation in the fair value of investments held by the ERS is recorded as an increase or decrease in investment income based on the valuation of investments as of the date of the balance sheet.

Investments. Investments are reported at fair value. Temporary cash investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at quoted market prices as of the date of the balance sheet. The fair value of the real estate - timberland, is based on an independent appraisal.

C. Funding Policy

The contribution requirement of plan members and the City are established by the ERS' Board of Trustees, based on actuarial estimates of future plan benefits to be paid. The contribution rate for general employees is 5% of their annual covered salary and 6.5% for public safety employees. The City has paid employee contributions since 1979. Total contributions to the ERS for the year ended June 30, 2004 amounted to \$2,434,174 of which the City, on behalf of its employees, paid \$817,471. The contributed amounts were based on an actuarial valuation. Contributions made by the City represents 5.0% on behalf of its employees that were employed before October 1991, and contributions made by the City on behalf of its employees represent 2.69% of covered payroll for the year for a total of 7.69%.

D. Annual Pension Cost and Net Pension Obligation

The annual pension cost at June 30, 2004 was \$1,452,279, and the contributions made by the City were \$1,487,214. The increase of \$34,935 is added to the prior year's balance of \$1,926,517 for a total asset of \$1,961,092. At year-end June 30, 2004, the Enterprise Funds had recorded a net pension asset of \$775,907. In accordance with GASB 27, the General Fund had an asset of \$2,576,901 has been recorded in the Statement of Net Assets.

Three-Year Trend Information

Actuarial Date	City Supplemental		
	06/30/02	06/30/03	06/30/04
Annual Pension			
Cost (APC)	\$ 1,539,515	\$ 1,905,055	\$ 2,305,956
Percentage of			
APC Contributed	161.33%	125.30%	105.00%
Net Pension			
Asset	\$ 2,804,445	\$ 3,269,470	\$ 3,352,806

The annual required contribution for the current year was determined as part of the June 30, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return and (b) projected salary increases of 3% per year. Both (a) and (b) included an inflation component of 2%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2004 was 30 years.

For the year ended June 30, 2004, the City had contributed more than the annual required amount. In accordance with GASB 27, the chart below details the components of the net pension asset.

	<u>Governmental</u>	<u>Enterprise</u>
Annual Required Contribution (ARC)	\$ 1,832,588	\$ 463,922
Interest on beginning Net Pension Obligation (NPO)	(210,069)	(49,371)
Adjustment to ARC	218,126	50,758
Annual Pension Cost	1,840,645	465,309
Contributions made	(1,885,982)	(503,311)
Decrease in NPO	(45,337)	(38,002)
Net pension asset - beginning of year	2,531,564	737,905
Net pension asset - end of year	<u>\$ 2,576,901</u>	<u>\$ 775,907</u>

The net pension asset shown above for the enterprise funds is net of the liability. Wastewater has a liability of \$1,542 which is applied to the asset of the other enterprise funds of \$777,449 to arrive at the balance shown in the chart above.

E. Schedule of Funding Progress:

Actuarial			
Valuation Date	<u>06/30/02</u>	<u>06/30/03</u>	<u>06/30/04</u>
Actuarial Value of Assets (a)	\$ 153,232,129	\$ 153,776,851	\$ 154,074,366
Actuarial Accrued Liability (AAL) - Entry Age (b)	\$ 136,791,695	\$ 142,824,210	\$ 151,097,470
Unfunded (Overfunded) (AAL) (UAAL) (b - a)	\$ (16,440,434)	\$ (10,952,641)	\$ (2,976,896)
Funded Ratio (a / b)	112.01%	107.67%	102.00%
Covered Payroll (c)	\$ 31,049,608	\$ 30,971,722	\$ 31,645,327
UAAL as a Percentage of Covered Payroll ((b - a) / c)	52.90%	35.40%	9.40%

II. Virginia Retirement System

A. Plan Description

The City of Danville contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer public employee retirement system that acts as common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. There are three separate groups of employees covered under the plan. The first includes "constitutional employees" of the City, which are all employees of the offices of the Sheriff, Commonwealth's Attorney, Clerk of Court, Treasurer, and the Commissioner of Revenue. In addition, professional and nonprofessional employees of the Danville Public Schools are covered by the VRS.

Professional employees participate in a VRS statewide teacher cost sharing pool, and nonprofessional employees participate as a separate group.

All full-time, salaried employees must participate in the VRS. Benefits vest after 5 years of service. Employees who retire with a reduced benefit at age 55 (age 50 with at least 25 years for participating local law enforcement officers, firefighters and sheriffs) with at least 5 years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7% of their average final salary (AFS). AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. The VRS also provides death and disability benefits. Participating local law enforcement officers may receive a monthly benefit supplement if they retire prior to age 65. These benefit provisions and all other requirements are established by state statute.

The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the VRS at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy

Employees are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The City and the Danville Public Schools have assumed this 5% member contribution. If an employee leaves covered employment, the accumulated member contributions plus interest earned may be refunded to the employee. The City and the Danville Public Schools are required to contribute the remaining amounts necessary to fund the system using the actuarial basis specified by the VRS Board of Trustees. The Danville Public Schools contribution rate for the fiscal year ended June 30, 2003 was 10% (5% plus 5% for employees' portion) of annual covered payroll for nonprofessional employees. The City's contribution rate was 12.50% (7.50% plus 5% for employees' portion).

C. Annual Required Contribution

For June 30, 2004, the Danville Public School's annual contribution of \$130,441 for nonprofessional and \$2,822,281 for professional employees, and the City's annual contribution of \$454,589 was equal to the required and actual contributions. The contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions for nonprofessional employees included, (a) 8.0% investment rate of return, (b) projected salary increases ranging from 4.25% to 6.10% per year, and (c) 3.0% per year cost-of-living adjustments.

	Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
City Employees	2004	\$ 454,589	100%	\$ -
	2003	\$ 445,982	100%	\$ -
	2002	\$ 579,092	100%	\$ -
School Board nonprofessional	2004	\$ 130,441	100%	\$ -
	2003	\$ 129,893	100%	\$ -
	2002	\$ 154,291	100%	\$ -

Both (a) and (b) included an inflation component of 3.0%. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Danville Public Schools participates in the VRS teacher cost-sharing pool for professional employees.

REQUIRED SUPPLEMENTARY INFORMATION:**Schedule of Funding Progress**

The following information is from the most recent actuarial valuation (June 30, 2003).

Actuarial Valuation Date	06/30/01	06/30/02	06/30/03
Actuarial Value of Assets (a)	\$ 11,447,548	\$ 12,149,723	\$ 12,461,612
Actuarial Accrued Liability (AAL) - Entry Age (b)	\$ 10,806,960	\$ 11,538,079	\$ 12,314,605
Unfunded (Overfunded) (AAL) (UAAL) (b - a)	\$ (640,588)	\$ (611,644)	\$ (147,007)
Funded Ratio (a / b)	105.93%	105.30%	101.19%
Covered Payroll (c)	\$ 3,585,589	\$ 3,638,007	\$ 3,387,844
UAAL as a Percentage of Covered Payroll ((b - a) / c)	17.87%	16.81%	4.34%

Notes to Schedules of Employer Contributions and Funding Progress

	School Board	City
Valuation date	June 30, 2003	June 30, 2003
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent, open	Level percent, open
Payroll growth method	3.00 %	3.00 %
Remaining amortization period	14 years	2 years
Asset valuation method	Modified market	Modified market
Actuarial assumptions:		
Investment rate of return*	8.00 %	8.00 %
Projected salary increases*	4.25 - 6.10 %	4.25 - 6.10 %
Cost of living adjustments	3.00 %	3.00 %

*Includes inflation of 3%

The information presented in the schedules of employer contributions and funding progress was determined as part of the actuarial valuations. Additional information from the June 30, 2003, actuarial valuation is above.

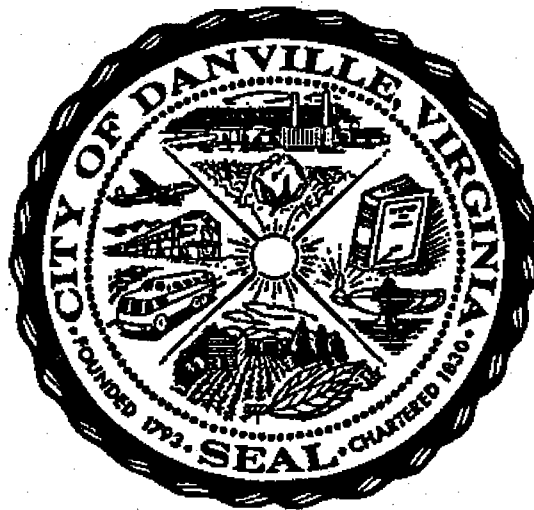
Deferred Compensation Plan

The City has a deferred compensation plan for all employees who request participation in the International City Managers Association Retirement Corporation (ICMA-RC) deferred compensation plan. The plan was created in accordance with Internal Revenue Code Section (IRC) 457. Amounts deferred under the plan are remitted on a monthly basis directly to the ICMA-RC, which acts as administrator and fiduciary agent of the plan. Prior to fiscal 1998, the assets of the plan, until paid or made available to the participants, remained the property of the City and were considered agency funds. Due to tax legislation, the City has amended the plan to comply with the requirements of subsection (g) of IRC Section 457. As a result of this change, the assets of the plan are no longer considered to be assets of the City. Since a fiduciary relationship no longer exists between the City and the plan, the plan's assets are no longer considered agency funds of the City.

12. Hedges

The City utilizes natural gas price hedging during the winter months to stabilize the cost of gas that is charged to its citizens. Hedge contracts are used to lock in the price of gas at a negotiated price that the City believes to be lower than the market price will be at the time the gas purchase will be needed. During the year ended June 30, 2004, the City purchased contracts totaling \$4,053,000 of which they sold \$1,241,000. This sale created a gain of \$241,650 that was used to offset the cost of gas during the period. There were no outstanding hedge contracts at June 30, 2004.

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REQUIRED SUPPLEMENTARY
INFORMATION OTHER THAN
MANAGEMENT'S DISCUSSION
& ANALYSIS

GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2004

GENERAL FUND REVENUES

	Original Budget	Final Budget	Actual	Variance
Property taxes				
Real property taxes	\$ 13,950,000	\$ 13,950,000	\$ 13,702,998	\$ (247,002)
Real and personal public service corporation property taxes	451,700	474,780	486,479	11,699
Personal property taxes	9,588,500	9,588,500	8,690,469	(898,031)
Penalties and interest	400,000	400,000	409,497	9,497
Total property taxes	24,390,200	24,413,280	23,289,443	(1,123,837)
Local taxes				
Local sales and use taxes	6,750,000	6,750,000	6,767,057	17,057
Business license taxes	3,500,000	3,500,000	3,597,621	97,621
Prepared meals taxes	3,850,000	3,850,000	3,854,344	4,344
Utility gross receipts taxes	50,000	50,000	76,875	26,875
Consumer utility taxes	1,300,000	1,300,000	1,134,425	(165,575)
Franchise license taxes	513,000	513,000	640,381	127,381
Motor vehicle license	925,000	925,000	905,093	(19,907)
Bank stock taxes	770,000	770,000	753,261	(16,739)
Taxes on recordation and wills	120,000	120,000	142,432	22,432
Daily property and room rental taxes	475,000	475,000	442,808	(32,192)
Telephone excise taxes	1,680,000	1,680,000	1,414,698	(265,302)
E-911 telephone taxes	573,000	573,000	629,830	56,830
Total local taxes	20,506,000	20,506,000	20,358,825	(147,175)
Fines and forfeitures	613,325	613,325	487,400	(125,925)
Permits, privilege fees, and regulatory licenses				
Dog tags	5,500	5,500	4,087	(1,413)
Permits and other licenses	230,200	230,200	185,318	(44,882)
Total permits, privilege fees, and regulatory licenses	235,700	235,700	189,405	(46,295)
Revenue from use of money and property				
Revenue from use of money	650,000	650,000	523,525	(126,475)
Revenue from the use of property	1,007,745	1,007,745	678,504	(329,241)
Market value adjustment	-	-	(550,341)	(550,341)
Total revenue from use of money and property	1,657,745	1,657,745	651,688	(1,006,057)
Charges for services				
Court costs	3,000	3,000	3,073	73
Opening and closing graves	377,250	377,250	222,245	(155,005)
Correction and detention	3,329,295	3,441,674	2,921,523	(520,151)
Commonwealth's Attorney	150,000	150,000	132,549	(17,451)
Other protection	9,300	9,300	9,780	480
Parks and recreation	165,000	165,000	222,455	57,455
Library	21,912	21,912	24,524	2,612
Planning and community development	1,600	1,600	18,087	16,487
Lot clearing	20,000	20,000	765	(19,235)
Tax abatement applications	200	200	550	350
Total charges for services	4,077,557	4,189,936	3,555,551	(634,385)

(Continued on next page)

GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2004

GENERAL FUND REVENUES (Continued)	Original Budget	Final Budget	Actual	Variance
Miscellaneous	150,500	153,370	58,097	(95,273)
Recovered costs	3,292,427	3,294,477	4,129,121	834,644
Intergovernmental				
Revenue from the Commonwealth				
Noncategorical aid	2,602,094	2,602,094	2,529,171	(72,923)
Shared expenditures:				
Commonwealth's Attorney	496,095	496,095	502,263	6,168
Sheriff	2,410,454	2,410,454	2,441,516	31,062
Commissioner of Revenue	135,672	135,672	137,522	1,850
Treasurer	118,962	118,962	119,941	979
Medical examiner	1,000	1,000	930	(70)
Registrar and electoral board	45,000	45,000	42,852	(2,148)
Clerk of circuit court	21,456	21,456	20,652	(804)
Total shared expenditures	3,228,639	3,228,639	3,265,676	37,037
Welfare	6,016,696	6,016,696	5,966,798	(49,898)
Other categorical aid:				
Forfeited property	-	61,145	61,145	-
Law enforcement	-	2,157	2,157	-
Emergency services	170,254	170,254	191,704	21,450
Juvenile and domestic relations	1,146,396	1,146,396	1,300,586	154,190
National Guard armory	12,000	12,000	11,719	(281)
Street and highway maintenance	6,786,000	6,786,000	7,163,603	377,603
Library	174,321	174,321	186,142	11,821
Community development	-	403	403	-
Total other categorical aid	8,288,971	8,352,676	8,917,459	564,783
Revenue from the federal government:				
Payments in lieu of taxes	3,714	3,714	3,714	-
Emergency services	24,000	24,000	11,970	(12,030)
Law enforcement	-	-	11,589	11,589
Forfeited property	-	37,898	37,898	-
Total revenue from the federal government	27,714	65,612	65,171	(441)
Total intergovernmental	20,164,114	20,265,717	20,744,275	478,558
Total General Fund revenues	\$ 75,087,568	\$ 75,329,550	\$ 73,463,805	\$ (1,865,745)

(Continued on next page)

GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2004

GENERAL FUND EXPENDITURES

	Original Budget	Final Budget	Actual	Variance
General Government				
Legislative				
<i>City Council</i>				
Salaries	\$ 40,000	\$ 40,001	\$ 40,000	\$ (1)
Other	95,109	95,693	66,256	(29,437)
	135,109	135,694	106,256	(29,438)
<i>Mayor</i>				
Salaries	7,000	7,001	7,000	(1)
Other	4,936	4,936	1,224	(3,712)
	11,936	11,937	8,224	(3,713)
Total legislative	147,045	147,631	114,480	(33,151)
General and financial administration				
<i>City Manager</i>				
Salaries	307,555	342,442	342,442	-
Other	129,392	130,706	100,685	(30,021)
	436,947	473,148	443,127	(30,021)
<i>Personnel</i>				
Salaries	219,996	204,158	204,157	(1)
Other	131,356	136,204	131,937	(4,267)
	351,352	340,362	336,094	(4,268)
<i>Occupational health services</i>				
Salaries	58,435	56,976	56,974	(2)
Other	63,259	63,705	63,184	(521)
	121,694	120,681	120,158	(523)
<i>Budget</i>				
Salaries	49,267	50,746	50,745	(1)
Other	23,733	22,021	15,463	(6,558)
	73,000	72,767	66,208	(6,559)
<i>City Attorney</i>				
Salaries	189,136	182,530	153,106	(29,424)
Other	67,038	67,197	46,860	(20,337)
	256,174	249,727	199,966	(49,761)
<i>Independent auditor</i>				
Other	73,000	74,350	67,721	(6,629)
<i>Public affairs</i>				
Salaries	56,340	61,801	61,800	(1)
Other	20,700	23,736	23,611	(125)
	77,040	85,537	85,411	(126)
<i>Commissioner of Revenue</i>				
Salaries	278,164	280,754	280,753	(1)
Other	83,262	84,180	83,334	(846)
	361,426	364,934	364,087	(847)
<i>Real estate assessment</i>				
Salaries	256,778	264,482	264,481	(1)
Other	62,490	63,571	62,183	(1,388)
	319,268	328,053	326,664	(1,389)

(Continued on next page)

GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2004

GENERAL FUND EXPENDITURES (Continued)	Original Budget	Final Budget	Actual	Variance
General government administration				
<i>Central collections</i>				
Salaries	296,911	306,314	306,313	(1)
Other	137,791	162,512	159,382	(3,130)
	434,702	468,826	465,695	(3,131)
<i>Treasurer</i>				
Salaries	167,080	163,840	161,751	(2,089)
Other	56,857	58,565	56,696	(1,869)
	223,937	222,405	218,447	(3,958)
<i>Finance and accounting</i>				
Salaries	458,168	461,391	454,107	(7,284)
Other	101,853	110,441	138,513	28,072
	560,021	571,832	592,620	20,788
<i>Purchasing</i>				
Salaries	140,187	136,868	136,868	-
Other	47,666	61,872	60,772	(1,100)
	187,853	198,740	197,640	(1,100)
<i>Management information systems</i>				
Salaries	617,644	674,539	674,537	(2)
Other	715,349	723,280	712,240	(11,040)
	1,332,993	1,397,819	1,386,777	(11,042)
Total general and financial administration	4,809,407	4,969,181	4,870,615	(98,566)
Board of Elections				
<i>Elections</i>				
Salaries	29,500	32,830	32,829	(1)
Other	18,857	23,994	22,729	(1,265)
	48,357	56,824	55,558	(1,266)
<i>Registrar</i>				
Salaries	67,859	65,257	65,257	-
Other	23,719	23,915	15,872	(8,043)
	91,578	89,172	81,129	(8,043)
Total Board of Elections	139,935	145,996	136,687	(9,309)
Total General Government	5,096,387	5,262,808	5,121,782	(141,026)
Judicial Administration				
Courts				
<i>Circuit court</i>				
Salaries	135,712	129,179	111,051	(18,128)
Other	30,813	31,003	25,755	(5,248)
	166,525	160,182	136,806	(23,376)
<i>General district court</i>				
Salaries	50,000	49,000	19,488	(29,512)
Other	16,684	17,684	11,412	(6,272)
	66,684	66,684	30,900	(35,784)

(Continued on next page)

GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2004

GENERAL FUND EXPENDITURES (Continued)	Original Budget	Final Budget	Actual	Variance
<i>Magistrate</i>				
Other	625	625	412	(213)
<i>District court service unit</i>				
Other	4,800	4,800	2,829	(1,971)
<i>Juvenile and domestic relations court</i>				
Other	38,530	38,530	24,306	(14,224)
<i>Clerk of the Circuit Court</i>				
Salaries	25,480	41,253	41,253	-
Other	126,416	137,733	122,250	(15,483)
	151,896	178,986	163,503	(15,483)
<i>City Sheriff</i>				
Salaries	2,261,246	2,266,517	2,266,515	(2)
Other	611,225	790,046	772,112	(17,934)
	2,872,471	3,056,563	3,038,627	(17,936)
Total courts	3,301,531	3,506,370	3,397,383	(108,987)
Commonwealth's Attorney				
Salaries	601,040	595,726	594,011	(1,715)
Other	194,662	229,448	197,074	(32,374)
Total Commonwealth's Attorney	795,702	825,174	791,085	(34,089)
Total judicial administration	4,097,233	4,331,544	4,188,468	(143,076)
Public Safety				
Law enforcement and traffic control				
<i>Police</i>				
Salaries	5,143,677	4,828,943	4,739,256	(89,687)
Other	1,113,771	1,864,768	1,792,002	(72,766)
	6,257,448	6,693,711	6,531,258	(162,453)
<i>Traffic control and maintenance</i>				
Salaries	278,956	289,340	289,339	(1)
Other	355,891	339,042	320,510	(18,532)
	634,847	628,382	609,849	(18,533)
Total law enforcement and traffic control	6,892,295	7,322,093	7,141,107	(180,986)
Fire and rescue services				
<i>Fire</i>				
Salaries	4,573,579	4,656,536	4,656,536	-
Other	1,095,662	1,418,026	1,358,904	(59,122)
	5,669,241	6,074,562	6,015,440	(59,122)
<i>Ambulance and rescue services</i>				
Other	65,929	65,929	66,104	175
Total fire and rescue services	5,735,170	6,140,491	6,081,544	(58,947)

(Continued on next page)

GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2004

GENERAL FUND EXPENDITURES (Continued)	Original Budget	Final Budget	Actual	Variance
Correction and detention				
<i>Juvenile detention</i>				
Salaries	1,452,873	1,423,647	1,417,912	(5,735)
Other	1,767,397	1,807,878	1,455,181	(352,697)
	3,220,270	3,231,525	2,873,093	(358,432)
<i>City Jail</i>				
Salaries	-	13,607	12,751	(856)
Other	972,536	1,025,647	1,030,943	5,296
	972,536	1,039,254	1,043,694	4,440
<i>Adult detention</i>				
Salaries	1,142,516	1,130,284	1,093,815	(36,469)
Other	944,737	970,076	967,031	(3,045)
	2,087,253	2,100,360	2,060,846	(39,514)
Total correction and detention	6,280,059	6,371,139	5,977,633	(393,506)
Inspections				
Salaries	277,627	258,444	234,684	(23,760)
Other	94,534	96,204	82,961	(13,243)
Total inspections	372,161	354,648	317,645	(37,003)
Other protection				
<i>Animal control</i>				
Salaries	87,515	103,973	103,972	(1)
Other	128,296	137,815	137,811	(4)
	215,811	241,788	241,783	(5)
<i>Medical examiner</i>				
Other	2,000	2,000	1,500	(500)
<i>Emergency services</i>				
Salaries	77,499	46,180	46,180	-
Other	99,087	111,221	95,737	(15,484)
	176,586	157,401	141,917	(15,484)
<i>Emergency E-911</i>				
Salaries	600,121	628,188	628,189	1
Other	229,794	211,513	175,847	(35,666)
	829,915	839,701	804,036	(35,665)
Total other protection	1,224,312	1,240,890	1,189,236	(51,654)
Total public safety	20,503,997	21,429,261	20,707,165	(722,096)
Public Works				
Maintenance of highways, streets, bridges and sidewalks				
<i>Warehouse</i>				
Salaries	104,039	85,124	46,383	(38,741)
Other	43,947	41,629	29,317	(12,312)
	147,986	126,753	75,700	(51,053)

(Continued on next page)

GENERAL FUND
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2004

GENERAL FUND EXPENDITURES (Continued)	Original Budget	Final Budget	Actual	Variance
<i>Airport</i>				
Salaries	173,166	179,115	179,114	(1)
Other	188,582	192,152	190,207	(1,945)
	361,748	371,267	369,321	(1,946)
<i>Director of Public Works and Engineering</i>				
Salaries	280,215	274,084	273,161	(923)
Other	110,068	334,064	87,728	(246,336)
	390,283	608,148	360,889	(247,259)
<i>Engineering</i>				
Salaries	338,687	349,848	379,619	29,771
Other	127,001	121,009	115,819	(5,190)
	465,688	470,857	495,438	24,581
<i>Right of way landscaping</i>				
Other	80,000	115,166	86,282	(28,884)
<i>Street maintenance</i>				
Salaries	622,100	565,966	565,965	(1)
Other	3,738,882	4,117,736	3,484,544	(633,192)
	4,360,982	4,683,702	4,050,509	(633,193)
<i>Storm drainage</i>				
Salaries	184,326	154,078	154,077	(1)
Other	189,729	169,186	169,181	(5)
	374,055	323,264	323,258	(6)
<i>Street lighting</i>				
Other	634,149	668,098	663,682	(4,416)
<i>Snow removal and storm damage</i>				
Drainage repair	50,000	992	991	(1)
Salaries	76,803	132,527	132,526	(1)
Other	202,306	278,336	278,331	(5)
	329,109	411,855	411,848	(7)
<i>On and off street parking</i>				
Salaries	16,442	16,442	15,716	(726)
Other	2,277	2,277	2,196	(81)
	18,719	18,719	17,912	(807)
<i>Maintenance - jobbing</i>				
Salaries	9,600	252	251	(1)
Other	8,746	335	334	(1)
	18,346	587	585	(2)
<i>Street cleaning</i>				
Salaries	167,431	170,966	170,965	(1)
Other	122,480	143,107	143,104	(3)
	289,911	314,073	314,069	(4)
Total maintenance of highways, streets, bridges, and sidewalks	7,470,976	8,112,489	7,169,493	(942,996)

(Continued on next page)

GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2004

GENERAL FUND EXPENDITURES (Continued)	Original Budget	Final Budget	Actual	Variance
Maintenance of general buildings and grounds				
<i>Maintenance of buildings and facilities</i>				
Salaries	113,286	88,554	88,553	(1)
Other	238,247	268,047	261,646	(6,401)
	351,533	356,601	350,199	(6,402)
<i>Maintenance of public grounds</i>				
Salaries	447,217	440,593	440,486	(107)
Other	380,671	397,703	361,283	(36,420)
	827,888	838,296	801,769	(36,527)
<i>Code enforcement</i>				
Salaries	28,884	29,752	29,750	(2)
Other	38,537	45,897	45,498	(399)
	67,421	75,649	75,248	(401)
<i>City Beautiful</i>				
Other	10,000	16,264	8,699	(7,565)
<i>Municipal building</i>				
Salaries	152,370	192,676	192,675	(1)
Other	238,273	267,108	268,210	1,102
	390,643	459,784	460,885	1,101
<i>Courts and jail building</i>				
Salaries	101,580	70,748	70,747	(1)
Other	299,538	210,747	207,309	(3,438)
	401,118	281,495	278,056	(3,439)
<i>Financial services center</i>				
Other	96,721	87,878	81,206	(6,672)
Total maintenance of general buildings and grounds	2,145,324	2,115,967	2,056,062	(59,905)
Total Public Works	9,616,300	10,228,456	9,225,555	(1,002,901)
Health and Welfare				
Health				
Other	521,179	521,179	521,179	-
Mental health and mental retardation				
Other	158,744	158,744	158,744	-
	158,744	158,744	158,744	-
Welfare and social services				
<i>Director of human services</i>				
Salaries	108,918	112,187	112,186	(1)
Other	23,910	30,332	24,406	(5,926)
	132,828	142,519	136,592	(5,927)
<i>Social services bureau</i>				
Salaries	2,309,241	2,268,903	2,268,902	(1)
Other	4,194,666	4,159,362	3,977,762	(181,600)
	6,503,907	6,428,265	6,246,664	(181,601)
<i>Welfare reform - education</i>				
Salaries	429,342	424,068	220,578	(203,490)
Other	331,794	413,289	346,401	(66,888)
	761,136	837,357	566,979	(270,378)

(Continued on next page)

GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2004

GENERAL FUND EXPENDITURES (Continued)

	Original Budget	Final Budget	Actual	Variance
<i>Foster/adoptive home services</i>				
Salaries	28,892	28,806	28,519	(287)
Other	16,717	16,803	10,497	(6,306)
	45,609	45,609	39,016	(6,593)
<i>Southern Area Agency on Aging</i>				
Other	5,841	5,841	5,283	(558)
<i>State and local hospitalization</i>				
Other	8,263	8,263	7,478	(785)
<i>Property tax relief for the elderly</i>				
Other	75,000	67,800	67,754	(46)
Total welfare and social services	7,532,584	7,535,654	7,069,766	(465,888)
Total Health and Welfare	8,212,507	8,215,577	7,749,689	(465,888)
Education				
Danville Community College	9,104	9,104	9,104	-
Danville School Board	17,819,000	19,299,633	18,488,645	(810,988)
Total Education	17,828,104	19,308,737	18,497,749	(810,988)
Parks, Recreation, and Cultural				
Parks and Recreation				
<i>Recreation</i>				
Salaries	945,485	969,334	968,955	(379)
Other	441,569	413,536	411,529	(2,007)
	1,387,054	1,382,870	1,380,484	(2,386)
<i>After school instructional program</i>				
Salaries	60,000	122,306	122,305	(1)
Other	15,500	43,944	43,942	(2)
	75,500	166,250	166,247	(3)
<i>Carrington Pavilion</i>				
Salaries	20,000	11,862	11,215	(647)
Other	250,490	264,009	263,353	(656)
	270,490	275,871	274,568	(1,303)
<i>Recreation buildings - maintenance</i>				
Salaries	101,580	49,637	49,636	(1)
Other	297,912	333,965	325,437	(8,528)
	399,492	383,602	375,073	(8,529)
<i>Recreation grounds - maintenance</i>				
Salaries	358,035	330,741	316,834	(13,907)
Other	508,382	598,209	595,091	(3,118)
	866,417	928,950	911,925	(17,025)
<i>Cemeteries maintenance</i>				
Salaries	228,502	262,623	262,623	-
Other	177,331	201,306	199,565	(1,741)
	405,833	463,929	462,188	(1,741)

(Continued on next page)

GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2004

GENERAL FUND EXPENDITURES (Continued)

	Original Budget	Final Budget	Actual	Variance
<i>Cemeteries services</i>				
Salaries	152,334	113,441	113,440	(1)
Other	60,648	59,844	59,724	(120)
	212,982	173,285	173,164	(121)
Total parks and recreation	3,617,768	3,774,757	3,743,649	(31,108)
Cultural enrichment				
<i>Tourism and preservation</i>				
Salaries	185,161	183,902	183,622	(280)
Other	157,758	197,350	193,065	(4,285)
	342,919	381,252	376,687	(4,565)
Public libraries				
Salaries	390,931	401,394	438,415	37,021
Other	570,664	562,065	485,139	(76,926)
Total public libraries	961,595	963,459	923,554	(39,905)
Total Parks, Recreation, and Cultural	4,922,282	5,119,468	5,043,890	(75,578)
Community Development				
Planning and community development				
<i>Director of community development</i>				
Salaries	177,867	174,232	165,960	(8,272)
Other	73,658	92,872	80,334	(12,538)
	251,525	267,104	246,294	(20,810)
<i>Economic development</i>				
Salaries	204,400	208,737	208,736	(1)
Other	213,027	278,015	255,551	(22,464)
	417,427	486,752	464,287	(22,465)
<i>Enterprise zone activities</i>				
Other	108,000	74,779	61,929	(12,850)
<i>Planning</i>				
Salaries	114,191	130,159	130,159	-
Other	44,889	63,443	53,082	(10,361)
	159,080	193,602	183,241	(10,361)
<i>Planning commission</i>				
Other	6,400	6,400	5,505	(895)
<i>West Piedmont Planning District</i>				
Other	22,285	22,285	22,016	(269)
<i>Zoning board</i>				
Salaries	2,000	1,968	841	(1,127)
Other	2,580	2,612	2,203	(409)
	4,580	4,580	3,044	(1,536)
Total planning and community development	969,297	1,055,502	986,316	(69,186)
Other	25,567	25,567	21,128	(4,439)
Total Community Development	994,864	1,081,069	1,007,444	(73,625)

(Continued on next page)

GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2004

GENERAL FUND EXPENDITURES (Continued)				
	Original Budget	Final Budget	Actual	Variance
Nondepartmental				
Employee benefits	4,254,500	4,383,514	3,356,058	(1,027,456)
Non-Departmental	1,062,000	116,636	-	(116,636)
Debt Service				
Principal	4,088,382	12,745,678	12,469,656	(276,022)
Interest	2,246,356	2,349,926	2,461,084	111,158
Total Nondepartmental	11,651,238	19,595,754	18,286,798	(1,308,956)
Total General Fund Expenditures	\$ 82,922,912	\$ 94,572,674	\$ 89,828,540	\$ (4,744,134)

June 30, 2004

Budgets and Budgetary Accounting

Prior to April 1, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means to finance them. After a public hearing has been conducted to obtain taxpayer comments, the budget is legally adopted through passage of an ordinance prior to July 1 of each year.

The City Manager is authorized to transfer budgeted amounts within each fund. Transfers between funds require City Council approval.

An annual operating budget is adopted for only the General Fund. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying Budgetary Comparison Schedule for the General Fund presents actual expenditures in accordance with the accounting principles accepted in the United States of America on a basis consistent with the legally adopted budget as amended. Effective budgetary control is achieved for the Capital Projects Fund and Special Revenues Funds, on a project-by-project or per grant basis when funding sources become available.

Budgets are adopted for management control for the Enterprise and Internal Services Funds. The restrictions on transfer of budgeted amounts for governmental funds also apply to the Enterprise and Internal Service Funds, except in the Gas and Electric Funds. Amounts in those funds budgeted for the purchase of natural gas and electric power may be increased to the extent that actual revenues exceed the original budgeted revenue.

All appropriations lapse at year end except appropriations within the Capital Projects Fund and Special Revenue Funds, which are continued until completion of the applicable projects or grants, even when such projects or grants extend beyond one fiscal year.



OTHER SUPPLEMENTARY INFORMATION

Nonmajor Governmental Funds

Special Revenue Funds

- ❖ Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for specified purposes.

Cemetery Maintenance

- ❖ Cemetery Maintenance Fund is a permanent fund used to account for funds set aside to provide for the perpetual care of City cemeteries. Only the earnings from the investments of this fund may be expended.

BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**June 30, 2004**

	Special Revenue	Cemetery Maintenance	Total
ASSETS			
Cash and investments	\$ -	\$ 2,430,437	\$ 2,430,437
Receivables - net			
Accounts	1,805	-	1,805
Loans	29,307	-	29,307
Due from other governments	930,291	-	930,291
Total assets	\$ 961,403	\$ 2,430,437	\$ 3,391,840
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 187,657	\$ -	\$ 187,657
Deferred revenue	30,296	-	30,296
Due to other funds	445,237	-	445,237
Total liabilities	663,190	-	663,190
FUND BALANCES			
Reserved for:			
Encumbrances	212,794	-	212,794
Cemetery maintenance	-	2,430,437	2,430,437
Unreserved	85,419	-	85,419
Total fund balances	298,213	2,430,437	2,728,650
Total liabilities and fund balances	\$ 961,403	\$ 2,430,437	\$ 3,391,840

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
NONMAJOR GOVERNMENTAL FUNDS**

Year Ended June 30, 2004

	Special Revenue	Cemetery Maintenance	Total
REVENUES			
Miscellaneous	\$ 180,416	\$ 41,267	\$ 221,683
Intergovernmental	3,221,199	-	3,221,199
Total revenues	3,401,615	41,267	3,442,882
EXPENDITURES			
Judicial administration	54,110	-	54,110
Public safety	695,268	-	695,268
Public works	72,943	-	72,943
Health and welfare	2,733,345	-	2,733,345
Parks, recreation, and cultural	466,048	-	466,048
Total expenditures	4,021,714	-	4,021,714
Excess (deficiency) of revenues over expenditures	(620,099)	41,267	(578,832)
OTHER FINANCING SOURCES (USES)			
Transfers in	603,224	-	603,224
Net change in fund balances	(16,875)	41,267	24,392
Fund balances - beginning of year	315,088	2,389,170	2,704,258
Fund balances - end of year	\$ 298,213	\$ 2,430,437	\$ 2,728,650

Nonmajor Enterprise Funds

- ❖ Transportation - provides mass transit service throughout the City.
- ❖ Waste Management and Disposal - provides for the collection and disposal of solid waste.

COMBINING BALANCE SHEET-NONMAJOR ENTERPRISE FUNDS

June 30, 2004

	Transportation	Sanitation	Total
ASSETS			
Current assets			
Cash and investments	\$ -	\$ 212,725	\$ 212,725
Receivables - net	8,012	-	8,012
Due from other governments	408,205	-	408,205
Pension asset	20,066	187,410	207,476
Total current assets	436,283	400,135	836,418
Noncurrent assets			
Capital assets -			
Land and improvements	-	509,232	509,232
Buildings, structures, and improvements	923,206	1,601,809	2,525,015
Equipment	1,679,654	361,389	2,041,043
Less - accumulated depreciation	(1,599,836)	(1,764,845)	(3,364,681)
Total noncurrent assets - net	1,003,024	707,585	1,710,609
Total assets	1,439,307	1,107,720	2,547,027
LIABILITIES			
Current liabilities			
Accounts payable	66,994	72,629	139,623
Accrued interest	61	1,206	1,267
Due to General Fund	107,167	-	107,167
Long-term liabilities - due within one year	4,027	32,333	36,360
Total current liabilities	178,249	106,168	284,417
Long-term liabilities - due in more than one year	18,018	150,442	168,460
Total liabilities	196,267	256,610	452,877
NET ASSETS			
Invested in capital assets - net of related debt	996,557	583,889	1,580,446
Unrestricted	246,483	267,221	513,704
Total net assets	\$ 1,243,040	\$ 851,110	\$ 2,094,150

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - NONMAJOR ENTERPRISE FUNDS**

Year Ended June 30, 2004

	Transportation	Sanitation	Total
OPERATING REVENUES			
Charges for services	\$ 220,109	\$ 2,988,181	\$ 3,208,290
OPERATING EXPENSES			
Services	888,271	3,306,038	4,194,309
Depreciation	150,988	139,432	290,420
Total operating expenses	1,039,259	3,445,470	4,484,729
Operating loss	(819,150)	(457,289)	(1,276,439)
NONOPERATING REVENUES (EXPENSES)			
Rental income	7,662	9,742	17,404
Recovered cost	14,273	-	14,273
Gain on sale of assets	2,600	-	2,600
Federal and state grants	623,768	-	623,768
In-kind contributions	105,600	-	105,600
Interest expense	(110)	(3,842)	(3,952)
Total nonoperating revenues (expenses)	753,793	5,900	759,693
Loss before transfer	(65,357)	(451,389)	(516,746)
Transfers			
Transfers in from general fund	155,911	-	155,911
Change in net assets	90,554	(451,389)	(360,835)
Net assets - beginning of year	1,152,486	1,302,499	2,454,985
Net assets - end of year	\$ 1,243,040	\$ 851,110	\$ 2,094,150

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS

Year Ended June 30, 2004

	Transportation	Sanitation	Total
Cash flows from operating activities -			
Received from customers	\$ 219,166	\$ 3,051,254	\$ 3,270,420
Payments to suppliers for goods and services	(105,793)	(1,609,614)	(1,715,407)
Payments to employees for services	(504,412)	(1,429,475)	(1,933,887)
Payments to internal service funds for goods and services	(4,165)	(296,259)	(300,424)
Nonoperating revenue	21,935	9,742	31,677
Net cash from operating activities	(373,269)	(274,352)	(647,621)
Cash flows from noncapital financing activities -			
Transfers from other funds	155,911	-	155,911
Operating grants received	261,269	-	261,269
Net cash from noncapital financing activities	417,180	-	417,180
Cash flows from capital and related financing activities -			
Acquisition of capital assets	(177,392)	-	(177,392)
Principal payments on long-term debt	(1,008)	(20,052)	(21,060)
Interest payments on long-term debt	(209)	(4,205)	(4,414)
Net cash from capital and related financing activities	(178,609)	(24,257)	(202,866)
Cash flows from investing activities -			
Interest on investments	2,502	10,949	13,451
Net activity in investment securities	(80)	(16,119)	(16,199)
Net cash from investing activities	2,422	(5,170)	(2,748)
Net increase (decrease) in cash and cash investments	(132,276)	(303,779)	(436,055)
Cash and investments - beginning of year	132,276	516,504	648,780
Cash and investments - end of year	\$ -	\$ 212,725	\$ 212,725
Reconciliation of operating loss to net cash from operating activities			
Operating loss	\$ (819,150)	\$ (457,289)	\$ (1,276,439)
Adjustments -			
Depreciation charged to operations	150,988	139,432	290,420
In-kind contributions	105,600	-	105,600
Change in noncash employee benefits charged to operations	(601)	(30,957)	(31,558)
Nonoperating revenue (expense)	21,935	9,742	31,677
Changes in assets and liabilities -			
Accounts receivable	(942)	63,073	62,131
Accounts payable	61,734	1,647	63,381
Due to other funds	107,167	-	107,167
Net cash from operating activities	\$ (373,269)	\$ (274,352)	\$ (647,621)

Internal Service Funds

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis. The Internal Service Funds provide services to other City departments as follows:

- ❖ Motorized Equipment - acquires and maintains all vehicles used by the various departments of the City.
- ❖ Central Services - provides office supplies and printing services for all departments of the City.
- ❖ Insurance - provides general insurance coverage to all City departments, including areas such as workers' compensation where the City is completely self-insured, and insurance coverage purchased from outside insurance companies.

COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS

June 30, 2004

	Motorized Equipment	Central Services	Insurance	Total
ASSETS				
Current assets				
Cash and investments	\$ 323,412	\$ 76,259	\$ 4,077,558	\$ 4,477,229
Cash and investments - held by fiscal agent	-	-	59,990	59,990
Receivables - net	-	1,489	-	1,489
Inventories	-	89,262	-	89,262
Pension asset	51,793	9,668	-	61,461
Total current assets	375,205	176,678	4,137,548	4,689,431
Noncurrent assets				
Capital assets -				
Equipment	8,652,943	202,889	-	8,855,832
Less - accumulated depreciation	(6,388,153)	(171,174)	-	(6,559,327)
Total noncurrent assets	2,264,790	31,715	-	2,296,505
Total assets	2,639,995	208,393	4,137,548	6,985,936
LIABILITIES				
Current liabilities				
Accounts payable	109,288	3,071	8,225	120,584
Accrued interest	1,971	-	-	1,971
Deferred revenue	9,305	-	-	9,305
Long-term liabilities - due within one year	4,431	292	-	4,723
Total current liabilities	124,995	3,363	8,225	136,583
Long-term liabilities - due in more than one year	222,868	2,305	-	225,173
Total liabilities	347,863	5,668	8,225	361,756
NET ASSETS				
Invested in capital assets -				
net of related debt	2,062,723	31,715	-	2,094,438
Unrestricted	229,409	171,010	4,129,323	4,529,742
Total net assets	\$ 2,292,132	\$ 202,725	\$ 4,129,323	\$ 6,624,180

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
INTERNAL SERVICE FUNDS**

Year Ended June 30, 2004

	Motorized Equipment	Central Services	Insurance	Total
OPERATING REVENUES				
Charges for services	\$ 2,220,058	\$ 458,289	\$ 2,010,078	\$ 4,688,425
OPERATING EXPENSES				
Operations	2,411,258	438,786	2,009,985	4,860,029
Total operating expenses	2,411,258	438,786	2,009,985	4,860,029
Operating loss	(191,200)	19,503	93	(171,604)
NONOPERATING REVENUE (EXPENSES)				
Gain on sale of capital assets	7,845	-	-	7,845
Interest expense	(6,196)	(96)	(3,788)	(10,080)
Total nonoperating revenues	1,649	(96)	(3,788)	(2,235)
Transfers				
Transfers out to General Fund	-	-	(350,000)	(350,000)
Change in net assets	(189,551)	19,407	(353,695)	(523,839)
Net assets - beginning of year	2,481,683	183,318	4,483,018	7,148,019
Net assets - end of year	\$ 2,292,132	\$ 202,725	\$ 4,129,323	\$ 6,624,180

COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS

Year Ended June 30, 2004

	Motorized Equipment	Central Printing	Insurance	Total
Cash flows from operating activities				
Received from customers	\$ 2,229,364	\$ 457,803	\$ 2,083,240	\$ 4,770,407
Payments to suppliers for goods and services	(1,175,938)	(322,965)	(2,001,770)	(3,500,673)
Payments to employees for services	(590,178)	(107,461)	-	(697,639)
Payments to internal services	(28,344)	(4,128)	-	(32,472)
Net cash from operating activities	434,904	23,249	81,470	539,623
Cash flows from noncapital financing activities				
Operating transfers to other funds	-	-	(350,000)	(350,000)
Cash flows from capital and related financing activities				
Acquisition of capital assets	(503,748)	-	-	(503,748)
Principal payments on long-term debt	(32,758)	-	-	(32,758)
Interest payments on long-term debt	(6,867)	-	-	(6,867)
Proceeds from the acquisition of capital assets	30,267	-	-	30,267
Net cash from capital and related financing activities	(513,106)	-	-	(513,106)
Cash flows from investing activities				
Net activity in investment securities	(8,366)	(95)	(3,788)	(12,249)
Net cash from investing activities	(8,366)	(95)	(3,788)	(12,249)
Net increase (decrease) in cash and investments	(86,568)	23,154	(272,318)	(335,732)
Cash and investments - beginning of year	409,980	53,105	4,409,866	4,872,951
Cash and investments - end of year	\$ 323,412	\$ 76,259	\$ 4,137,548	\$ 4,537,219
Reconciliation of operating income (loss) to net cash from operating activities				
Operating income (loss)	\$ (191,200)	\$ 19,503	\$ 93	\$ (171,604)
Adjustments -				
Depreciation charged to operations	538,039	10,879	-	548,918
Change in noncash employee benefits charged to operations	(1,558)	(4,150)	-	(5,708)
Changes in assets and liabilities -				
Receivables	-	(486)	73,162	72,676
Inventories	-	2,341	-	2,341
Accounts payable	80,318	(4,838)	8,215	83,695
Deferred revenue	9,305	-	-	9,305
Net cash from operating activities	\$ 434,904	\$ 23,249	\$ 81,470	\$ 539,623

SCHEDULE OF CAPITAL ASSETS BY FUNCTION AND ACTIVITY

For the Year Ended June 30, 2004

Function and Activity	Land	Buildings	Equipment	Infrastructure	Total
General government administration:					
General and financial administration	\$ 367,558	\$ 223,686	\$ 683,831	\$ -	\$ 1,275,075
Social services building	-	536,926	-	-	536,926
Public safety:					
Law enforcement and traffic control	-	99,967	301,550	-	401,517
Fire and rescue services	49,218	1,131,398	595,456	-	1,776,072
Corrections and detention	-	10,239,848	-	-	10,239,848
Inspections and other	-	137,001	-	-	137,001
Public works:					
Airport	3,198,128	4,605,022	185,007	-	7,988,157
General	305,000	379,375	381,604	-	1,065,979
Maintenance of highways, bridges and sidewalks	125,000	-	-	14,663,607	14,788,607
Health and welfare	-	365,195	389,038	-	754,233
Parks, recreation and cultural	-	4,826,856	228,240	-	5,055,096
Community development	27,293	-	-	-	27,293
General property	2,640,618	783,700	156,431	-	3,580,749
	6,712,815	23,328,974	2,921,157	14,663,607	47,626,553
Construction in progress	72,314	274,721	1,444,836	1,092,613	2,884,484
	6,785,129	23,603,695	4,365,993	15,756,220	50,511,037
Capital assets from Danville School Board	3,696,588	1,832,652	7,758,160	11,690,181	24,977,581
	\$ 10,481,717	\$ 25,436,347	\$ 12,124,153	\$ 27,446,401	\$ 75,488,618

* All totals are net of depreciation

SCHEDULE OF CHANGES IN CAPITAL ASSETS BY FUNCTION AND ACTIVITY

For the Year Ended June 30, 2004

Function and Activity	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
General government administration:				
General and financial administration	\$ 1,270,122	\$ 109,513	\$ 116,581	\$ 1,263,054
Board of Elections	14,270	-	2,249	12,021
Social services building	538,598	-	1,672	536,926
Public safety:				
Law enforcement and traffic control	458,078	-	56,561	401,517
Fire and rescue services	1,508,253	421,948	154,129	1,776,072
Corrections and detention	223,361	10,281,755	265,268	10,239,848
Inspections and other	142,017	-	5,016	137,001
Public works:				
Airport	7,658,068	351,248	21,159	7,988,157
General	1,151,992	-	86,013	1,065,979
Maintenance of highways, streets, and bridges	15,948,656	274,126	1,434,175	14,788,607
Health and welfare	845,869	-	91,636	754,233
Parks, recreation, and cultural	4,199,984	939,729	84,617	5,055,096
Community development	27,293	-	-	27,293
General property	3,616,993	-	36,244	3,580,749
	37,603,554	12,378,319	2,355,320	47,626,553
Construction in progress	12,573,511	9,356,231	19,045,258	2,884,484
	50,177,065	21,734,550	21,400,578	50,511,037
Capital assets from Danville School Board	26,901,021	698,496	2,621,936	24,977,581
	\$ 77,078,086	\$ 22,433,046	\$ 24,022,514	\$ 75,488,618

* All totals are net of depreciation

SCHEDULE OF CAPITAL ASSETS - BY SOURCE

June 30, 2004

Land	\$ 6,712,815
Buildings	23,328,974
Infrastructure	14,663,607
Equipment	2,921,157
Construction in progress	<u>2,884,484</u>
	<u>\$ 50,511,037</u>
Capital projects funds:	
General obligation bonds	\$ 16,030,244
General appropriations	8,627,855
General fund revenues	15,707,886
Special revenue fund revenues	494,317
Federal grants	3,224,608
State grants	5,437,491
Contributions	<u>988,636</u>
	50,511,037
Danville School Board	<u>24,977,581</u>
	<u>\$ 75,488,618</u>

* All totals are net of depreciation



STATISTICAL SECTION

CITY OF DANVILLE
GOVERNMENT-WIDE INFORMATION

DATE OF INCORPORATION

Danville was founded in 1793 and chartered in 1830.

AREA OF CITY

The City of Danville covers an area of approximately 44 square miles. This includes approximately 26.83 square miles annexed into the city on January 1, 1988.

POPULATION

United States Census	1970	46,398
United States Census	1980	45,642
United States Census	1990	53,056
United States Census	2000	48,411
United States Census	2001	48,411
United States Census	2002	48,411
United States Census	2003	48,411
United States Census	2004	46,600

FORM OF GOVERNMENT

Danville has a Council-City Manager form of Government. City Council is comprised of nine members who are elected at large to serve four-year terms. The elections are held biennially with five members being elected in one biennium and four in the next. Members of Council elect the Mayor and Vice-Mayor from the Council membership.

FISCAL YEAR

The fiscal year begins on July 1 and ends the following June 30.

BUDGET

Under provisions of the City charter, the City Manager must submit his budget to City Council no later than April 1, for the next succeeding year. Council, after public hearings, may insert new items of expenditures or may increase, decrease, or strike out items of expenditures, other than debt service or items required by Charter or other provisions of Law. Council, prior to the end of each fiscal year, must adopt a balanced budget for the ensuing year.

ASSESSMENTS

The City Assessor of Real Estate assesses real estate annually at "fair market value". This value is currently estimated to be 90% of recorded sales.

The Commissioner of Revenue (a State official) assesses tangible personal property and machinery used for manufacturing as required by State Code.

TAX RATES

Real Estate:

\$0.80 Per \$100 of Assessed Value - 2004
\$0.80 Per \$100 of Assessed Value - 2003
\$0.80 Per \$100 of Assessed Value - 2002
\$0.785 Per \$100 of Assessed Value - 2001
\$0.8125 Per \$100 of Assessed Value - 2000
\$0.79 Per \$100 of Assessed Value - 1999
\$0.71 Per \$100 of Assessed Value - 1998
\$0.68 Per \$100 of Assessed Value - 1997
\$0.75 Per \$100 of Assessed Value - 1996
\$0.76 Per \$100 of Assessed Value - 1995
\$0.735 Per \$100 of Assessed Value - 1994

CITY OF DANVILLE

Tangible Personal Property:

\$3.00 Per \$100 of Assessed Value-1971-2004

Aircraft:

\$0.30 Per \$100 of Assessed Value 2001-2004

Mobile Homes:

Taxed at the Real Estate rate

Machinery Used for Manufacturing:

\$1.50 Per \$100 of Assessed Value-1987-2004

\$3.00 Per \$100 of Assessed Value 1971-1986

Business and Professional License:

Wholesale Merchants:

\$50 if Gross Purchases are less than \$100M

\$0.15 Per \$100 of Gross Purchases if Gross Purchases exceed \$100M

Retail Merchants:

\$50 if Gross Receipts are less than \$100M

\$0.20 Per \$100 of Gross Receipts if they exceed \$100M

Professional Occupations:

\$50 if Gross Receipts are less than \$100M

\$0.58 Per \$100 of Gross Receipts if they exceed \$100M

Services:

\$50 if Gross Receipts are less than \$100M

\$0.36 Per \$100 of Gross Receipts if they exceed \$100M

Contractors:

\$50 if Gross Receipts are less than \$100M

\$0.16 Per \$100 of Gross Receipts if they exceed \$100M

Motor Vehicles License:

Private passenger vehicles-\$25

Trucks - Rates graduated in accordance with gross weight

Minimum rate \$25; maximum rate \$175

Bank Franchise Tax:

\$0.80 on each \$100 of taxable value-1979-2004

\$0.40 on each \$100 of taxable value-1971-1978

Sales and Use Tax:

3.5% State and 1% Local

Lodging Tax:

3% of the charge made for each room rented in a hotel or motel

Meals Tax:

4.5% on prepared foods

Telephone Tax:

Residential - 20% of first \$15.00 of charge for local service

Business - 20% of first \$200.00 of charge for local service

Cellular - 10% on first \$30.00 of charges

E-911-Service - \$2.65 per line

Commercial - 4.6% of first \$200.00

Gross Receipts Tax:

1/2 of 1% gross receipts of telephone and telegraph companies (excluding charges for long distance calls), accruing from business in the City.

CITY OF DANVILLE

Utility Consumption Tax - Effective February 1, 2004:

Monthly application rates on Electric consumption

0 - 2,500 kWh @ the rate of \$0.00148 per kWh

State consumption rate:	Special regulatory rate:	Local consumption rate:
\$0.00102/kWh	\$0.00008/kWh	\$0.00038/kWh

2,501 - 50,000 kWh @ the rate of \$0.00094

State consumption rate:	Special regulatory rate:	Local consumption rate:
\$0.00065/kWh	\$0.00005/kWh	\$0.00024/kWh

Excess of 50,000 kWh \$0.00071

State consumption rate:	Special regulatory rate:	Local consumption rate:
\$0.00050/kWh	\$0.00003/kWh	\$0.00018/kWh

Monthly Application Rates on Natural Gas consumption
(see Section 58.1 2904 of the Virginia State Code)

Utility Consumer Tax Effective January 1, 2001:

Monthly Electric Application Rates:

Residential Consumer

\$0.27 plus \$0.0035 per kilowatt hours (kWh)

Maximum tax per month \$0.90

Commercial Consumers

\$0.49 plus \$0.0037 per kWh on the first 1500 kWh

\$0.0036 per kWh on the next 1501 - 5000 kWh

\$0.0032 per kWh on the excess of kWh over 5000

Maximum tax per month \$30.00

Industrial Consumers

\$39.00 plus \$0.0019 on each kWh delivered

Maximum tax per month \$60.00

Monthly Natural Gas Application Rates:

Residential Consumers

\$0.27 plus \$0.0485 per hundred cubic feet (CCF)

Maximum tax per month \$0.90

Commercial Consumers

\$0.68 plus \$0.0446 per CCF on the first 100 CCF

plus \$0.044 per CCF in excess of 100 CCF delivered

Maximum tax per month \$30.00

Industrial Consumers

\$0.95 plus the rate of \$.0455 per CCF for the first 1000 CCF delivered

plus \$0.0437 per CCF in excess of 1000 CCF delivered

Maximum tax per month \$60.00

Daily Rental Property Tax:

1% of gross proceeds from short-term rental of personal property (excludes personal property required to be licensed or registered with the Department of Motor Vehicles, the Department of Game and Inland Fisheries, or the Department of Aviation).

CITY OF DANVILLE

TAXES

The tax year for Real Estate taxes begins July 1 and ends June 30. Taxes are assessed, based on values as of July 1, the first day of the tax year. The tax is payable in two installments. The first half is due December 5, and the second half June 5.

The tax year for Tangible Personal Property, Machinery and Tools, and Mobile Homes begins January 1 and ends December 31. Taxes are assessed based on values as of January 1, the first day of the tax year. The tax is payable in two installments. The first half is due June 5 and the second half due December 5.

TAXES DELINQUENT

Real Estate taxes and Personal Property taxes are reported as delinquent the day following the due date. Interest at the rate of 10% per annum is added to the delinquent tax.

CITY INDEBTEDNESS

All indebtedness of the City of Danville, with the exception of Utility Revenue Bonds and Lease Revenue Obligations, is a direct obligation of the City and full faith and credit of the municipality are pledged for the payment of all its obligations. All bonds are issued in serial form.

Enterprise Funds and Internal Service Funds pay the principal and interest on General Obligation Bonds, Revenue Bonds, and Lease Purchase agreements, issued for their purposes, out of user fees. All other debt redemption and interest requirements are appropriated in the General Fund budget.

OVERLAPPING AREAS AND DEBT

The City of Danville is autonomous and entirely independent of the county or any other political subdivision of the state, being a separate and distinct political unit.

It is not coterminous with, or subject to any county or school district taxation, and is not liable for any indebtedness other than its own. It has the power to levy taxes on real estate and tangible personal property without limitation of rate or amount.

CITY OF DANVILLE
STATEMENT OF LEGAL DEBT MARGIN
JUNE 30, 2004

Debt Limits Per Constitution of Virginia - 10% Assessed		
Value of Real Estate at June 30, 2004 (\$1,765,839,000)		\$ 176,583,900
Deduct:	Gross Bonded Debt	\$ 81,979,707
Less:		
Bonds Issued Pursuant to Section 10, Article VII		
of the Constitution of Virginia:		
Revenue Bonds:		
Public Utility Revenue Bonds of 1993-94	\$ 326,250	
Public Utility Revenue Bonds of 1993-94	1,795,344	
Public Utility Revenue Bonds of 1994-95	173,152	
Public Utility Revenue Bonds of 1996-97	<u>5,333,940</u>	
		<u>7,628,686</u>
Net Debt Applicable Against Limit		<u>74,351,021</u>
Legal Debt Margin June 30, 2004		<u>\$ 102,232,879</u>

DEBT HISTORY

The City of Danville has never defaulted in the payment of any part of either principal or interest on any debt.

CREDIT RATING

Moody's Investor's Service, Inc.....A3

LEGAL OPINION ON INDEBTEDNESS

Furnished by Messrs. Hunton & Williams, Richmond, Virginia

CITY OF DANVILLE

RATIO OF BONDED DEBT TO ASSESSED VALUES AND BONDED DEBT PER CAPITA

FOR THE LAST TEN YEARS

Fiscal Year Ended June 30	Population	Assessed Value	Bonded Debt		Ratio of Bonded Debt To Assessed Value		Bonded Debt Per Capita	
			General Fund Supported	Self- Sustaining Utilities	General Fund Supported	Self- Sustaining Utilities	General Fund Supported	Self- Sustaining Utilities
1995	53,400	\$ 1,194,367,700	\$ 41,435,662	\$ 45,720,501	2.76 %	3.04 %	\$ 775.95	\$ 856.19
1996	52,800	1,217,567,100	41,573,219	48,899,988	2.66	3.13	787.37	926.14
1997	52,300	1,420,039,400	40,830,877	51,648,048	2.30	2.91	780.70	1,044.90
1998	51,700	1,449,210,900	41,954,058	56,739,963	2.31	3.13	811.49	1,097.49
1999	50,100	1,506,914,200	39,882,939	61,053,672	2.65	4.05	796.07	1,218.64
2000	48,411	1,528,359,100	37,130,303	57,246,441	2.43	3.75	766.98	1,182.51
2001	48,411	1,574,720,000	34,189,347	53,407,609	2.17	3.39	706.23	1,103.21
2002	48,411	1,593,365,800	46,081,284	49,910,417	2.89	3.13	951.88	1,030.97
2003	48,411	1,740,967,100	42,352,275	45,840,192	2.43	2.63	874.85	946.90
2004	46,600	1,765,839,000	39,269,396	42,710,311	2.22	2.42	842.69	916.53

Note: The above bonded debt excludes Lease Revenue Bonds and Capital Leases for equipment and other obligations which are subject to appropriation of funds by City Council for payment of debt service.

CITY OF DANVILLE

RATIO OF DEBT SERVICE TO TOTAL GENERAL FUND

EXPENDITURES AND TRANSFERS FOR THE LAST TEN YEARS

Fiscal Year Ended June 30	General Fund Expenditures and Transfers (1)	Debt Service		Percentage of Debt Service to Total Expenditures and Transfers	
		General Fund Supported (2)	Self-Sustaining Utilities (3)	General Fund Supported	Self-Sustaining Utilities
1995	\$ 56,467,032	\$ 5,817,053	\$ 5,324,206	10.30 %	9.43 %
1996	61,220,056	5,462,840	6,082,861	8.92	9.94
1997	66,319,814	5,620,633	5,442,920	8.48	8.21
1998	68,003,365	6,075,558	5,719,949	8.93	8.41
1999	72,131,462	6,878,652	6,109,656	9.54	8.47
2000	73,077,998	7,885,735	7,069,150	10.79	9.67
2001	77,677,281	8,315,579	6,781,687	10.71	8.73
2002	79,874,582	18,883,265	6,523,293	23.64	8.17
2003	84,131,702	9,092,451	6,481,914	10.81	7.70
2004	94,034,839	11,447,724	5,869,432	12.17	6.24

(1) Includes General Fund, Danville School Board, Danville Development Council, and Transfers Out.

(2) Includes tax supported bonds, school bonds, reimbursables, leases, notes, and long-term debt.

(3) Includes utility supported bonds, reimbursables, leases, notes, and long-term debt.

CITY OF DANVILLE

COMPARATIVE STATEMENT OF BONDED DEBT

FOR THE LAST TEN YEARS

Fiscal Year Ended June 30	Bonded Debt at Beginning of Year	Bonds Issued In Year	Bonds Retired In Year	Bonded Debt at End of Year
1995	\$ 79,632,760	\$ 11,247,312	\$ 3,723,909	\$ 87,156,163
1996	87,156,163	7,868,982	4,551,938	90,473,207
1997	90,473,207	6,553,858	4,548,140	92,478,925
1998	92,478,925	19,035,000	12,819,903	98,694,022
1999	98,694,022	8,119,683	5,877,094	100,936,611
2000	100,936,611	-	6,620,967	94,376,744
2001	94,376,744	-	6,840,888	87,596,956
2002	87,596,956	31,182,520	22,787,775	95,991,701
2003	95,991,701	-	7,799,234	88,192,466
2004	88,192,466	23,490,000	29,702,759	81,979,707

Note: The above bonded debt excludes Lease Revenue Bonds and Capital Leases for equipment and other obligations which are subject to appropriation of funds by City Council for payment of debt service.

DEBT SERVICE REQUIREMENTS
BASED ON BONDED DEBT OBLIGATIONS OUTSTANDING AT JUNE 30, 2004

Year Ending June 30	Lease Revenue Bonds			General Fund			General Obligation Bonds			Revenue Bonds			Total	
	Principal	Interest		Principal	Interest		Principal	Interest		Principal	Interest		Principal	Interest
2005	\$ 780,947	\$ 640,334		\$ 1,542,251	\$ 521,830		\$ 1,925,875	\$ 1,093,974		\$ 638,369	\$ 293,344		\$ 8,333,111	\$ 3,926,823
2006	794,059	602,612		1,569,949	452,811		1,990,855	1,010,528		640,388	267,776		8,564,160	3,551,730
2007	817,871	563,923		1,601,062	401,001		2,016,816	932,363		641,355	242,102		8,715,214	3,235,785
2008	835,961	525,218		1,624,787	346,945		2,044,028	856,757		575,026	216,425		8,778,626	2,915,607
2009	858,350	481,429		1,643,379	290,464		2,105,313	773,004		557,658	194,366		8,929,212	2,576,505
2010	883,836	438,470		1,475,205	231,975		1,990,964	685,290		564,259	173,348		8,403,146	2,226,998
2011	910,834	393,222		1,205,597	177,957		1,806,172	599,699		571,087	152,103		7,568,817	1,890,658
2012	938,233	347,073		992,218	125,794		1,842,006	515,359		578,148	130,624		7,040,782	1,557,160
2013	971,586	298,593		778,071	82,479		1,698,126	431,541		585,451	108,903		6,339,145	1,245,191
2014	767,818	247,360		569,699	53,296		1,715,748	346,160		593,005	86,932		5,572,353	965,700
2015	788,703	207,351		367,351	28,960		789,057	282,777		365,000	66,516		3,790,149	734,447
2016	810,100	166,079		191,477	16,998		773,149	243,326		365,000	52,098		3,066,979	575,382
2017	833,576	122,728		118,663	8,803		772,571	203,888		365,000	37,681		2,726,436	429,319
2018	858,024	79,061		57,500	3,673		774,417	164,361		365,000	23,263		2,447,441	298,151
2019	508,546	34,320		17,500	836		776,576	124,593		223,940	8,846		1,704,062	177,116
2020	264,492	6,902		-	-		779,374	84,689		-	-		1,043,866	91,591
2021	-	-		-	-		786,056	52,631		-	-		786,056	52,631
2022	-	-		-	-		793,088	20,224		-	-		793,088	20,224
2023	-	-		-	-		-	-		-	-		-	-
	<u>\$12,622,936</u>	<u>\$5,154,675</u>		<u>\$13,754,709</u>	<u>\$2,743,822</u>		<u>\$25,380,191</u>	<u>\$8,421,164</u>		<u>\$7,628,686</u>	<u>\$2,054,327</u>		<u>\$94,602,643</u>	<u>\$26,471,018</u>

DEBT SERVICE REQUIREMENTS

BASED ON LEASE REVENUE OBLIGATIONS OUTSTANDING AT JUNE 30, 2004

Year Ending June 30	HUD-Section 108		Obligations		Reimbursable Agreements		School Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 200,000	\$ 51,640	\$ 45,718	\$ 499	\$ 216,596	\$ -	\$ 138,161	\$ 19,549	\$ 600,475	\$ 71,688
2006	200,000	40,390	-	-	216,596	-	144,392	13,318	560,988	53,708
2007	200,000	28,970	-	-	195,147	-	150,905	6,806	546,052	35,776
2008	200,000	17,440	-	-	144,620	-	-	-	344,620	17,440
2009	200,000	5,830	-	-	70,833	-	-	-	270,833	5,830
2010	-	-	-	-	70,833	-	-	-	70,833	-
	<u>\$1,000,000</u>	<u>\$ 144,270</u>	<u>\$ 45,718</u>	<u>\$ 499</u>	<u>\$ 914,625</u>	<u>\$ -</u>	<u>\$ 433,458</u>	<u>\$ 39,673</u>	<u>\$ 2,393,801</u>	<u>\$ 184,442</u>

CITY OF DANVILLE
SCHEDULE OF UTILITY REVENUE BOND COVERAGE
FOR THE LAST TEN YEARS

Fiscal Year Ended June 30	Gross Revenue(1)	Direct Operating Expenses(2)	Net Revenue Available for Debt Service	Debt Service Requirements (3)			
				Principal	Interest	Total	Coverage
1995	\$ 74,487,944	\$ 53,636,226	\$ 20,851,718	\$ 359,854	\$ 298,455	\$ 658,309	31.67
1996	86,729,059	62,741,136	23,987,923	365,637	256,022	621,659	38.59
1997	85,642,708	60,937,371	24,705,337	380,312	247,306	627,618	39.36
1998	87,507,709	62,278,166	25,229,543	386,507	276,823	663,330	38.03
1999	* 87,787,010	58,712,636	29,074,374	* 395,421	213,490	608,911	47.75
2000	93,589,661	63,683,390	29,906,271	772,063	683,601	1,455,664	20.54
2001	110,711,610	77,683,958	33,027,652	781,443	479,267	1,260,710	26.20
2002	94,938,429	65,790,877	29,147,552	793,573	444,553	1,238,126	23.54
2003	99,876,892	68,128,146	31,748,746	808,462	406,581	1,215,043	26.13
2004	93,618,466	64,551,919	29,066,547	628,232	345,917	974,149	29.84

(1) Total revenue includes interest earned and other miscellaneous revenues.

(2) Total operating expenses exclusive of depreciation.

(3) Includes principal and interest of revenue bonds only. It does not include the general obligation bonds reported in the utility funds.

* 98-99 Net Revenue Available for Debt Service does not include Recoveries and Rebates of \$6,074.55 for Water, \$998,153.70 for Gas, and \$5,405,380.36 for Power and Light.

CITY OF DANVILLE

SCHEDULE CONCERNING REAL PROPERTY TAX LEVIES

AND COLLECTIONS FOR THE LAST TEN YEARS

Year	Tax Rate Per \$100	Original Levy	Collections and Adjustments Thru End of Month in which 2nd Half Tax Due	Uncollected at End of Month in which 2nd Half Tax Due	Percentage of Original Levy Uncollected at End of Month in which 2nd Half Tax Due	Collections and Adjustments After Month in which 2nd Half Tax Due	Uncollected Balance June 30, 2004	Percentage of Original Levy Uncollected June 30, 2004
1994-95	0.76	\$ 9,077,194	\$ 8,982,240	\$ 94,954	1.05	\$ 71,454	\$ 23,500	0.26
1995-96	0.75	9,131,753	9,034,772	96,981	1.06	65,908	31,073	0.34
1996-97	0.68	9,656,268	9,559,892	96,376	1.00	58,596	37,780	0.39
1997-98	0.71	10,289,397	10,168,971	120,426	1.17	68,828	51,598	0.50
1998-99	0.79	11,942,326	11,783,700	158,626	1.33	83,732	74,894	0.63
1999-00	0.8125	12,417,949	12,238,818	179,131	1.44	75,407	103,724	0.84
2000-01	0.785	12,361,615	12,128,208	233,407	1.89	68,816	164,591	1.33
2001-02	0.80	12,507,984	12,185,636	322,348	2.58	75,789	246,559	1.97
2002-03	0.80	13,927,737	13,433,629	494,108	3.55	88,870	405,238	2.91
2003-04	0.80	14,126,712	13,185,128	941,584	6.67	-	941,584	6.67

Note: Taxes assessed on fiscal year basis; Due Dates - 1st half December 5th - 2nd half June 5 each year; Collections through June 30 each year.

CITY OF DANVILLE

SCHEDULE CONCERNING PERSONAL PROPERTY TAX LEVIES

AND COLLECTIONS FOR THE LAST TEN YEARS

Year	Tax Rate Per \$100	Original Levy (1)	Collections and Adjustments Thru End of Month In which 2nd Half Tax Due	Uncollected at End of Month In which 2nd Half Tax Due	Original Levy Uncollected at End of Month In which 2nd Half Tax Due	Collections and Adjustments After End of Month in which 2nd Half Tax Due	Uncollected Balance (2) June 30, 2004	Percentage of Original Levy Uncollected June 30, 2004
1994-1995	3.00	\$ 6,598,786	\$ 6,410,403	\$ 188,383	0.03	\$ 188,383	\$ -	- %
1995-96	3.00	7,596,065	7,304,303	291,762	0.04	291,762	-	-
1996-97	3.00	8,076,695	7,994,690	82,005	1.02	82,005	-	-
1997-98	3.00	8,153,043	8,084,622	68,421	0.84	68,421	-	-
1998(6mos)	3.00	4,055,489	4,019,386	36,103	0.89	36,103	-	-
1999	3.00	8,535,512	8,449,434	86,078 (3)	1.01	9,482	76,596	0.90
2000	3.00	9,063,512	8,965,426	98,086 (3)	1.08	11,223	86,863	0.96
2001	3.00	9,386,391	9,221,080	165,311 (3)	1.76	37,224	128,087	1.36
2002	3.00	9,283,231	9,052,351	230,880 (3)	2.49	98,432	132,448	1.43
2003	3.00	9,227,252	9,034,063	193,189 (3)	2.09	-	193,189	2.09
2004	3.00	8,897,075	4,275,989	4,621,086 (4)	51.94	-	4,621,086	51.94

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(1) Personal property taxes were levied on a fiscal year basis beginning July 1 until July 1, 1998. On July 1, 1998, the City levied personal property taxes for a six-month period ending on December 31, 1998. Beginning on January 1, 1999, the City has levied taxes on a calendar year basis.

(2) According to state law, uncollected personal property taxes are collectible five years following the year of levy.

(3) Personal property tax uncollected reported as of June 30 of subsequent fiscal year.

(4) This includes second half of the tax levy which is not due until December 5, 2004.

CITY OF DANVILLE
REAL PROPERTY VALUES, CONSTRUCTION, AND BANK DEPOSITS
FOR THE LAST TEN YEARS

<u>Year</u>	<u>Assessed Value</u>	<u>Sales Ratio (1)</u>	<u>Estimated Actual Values</u>	<u>Construction (2)</u>	<u>Bank Deposits (3)</u>
1994-95	1,194,367,700	82.7	1,504,145,468	38,210,016	947,592,000
1995-96	1,217,567,100	77.0	1,641,928,291	59,569,043	1,093,000,000
1996-97	1,420,039,400	89.0	1,644,096,201	32,277,593	1,099,000,000
1997-98	1,499,210,900	86.0	1,743,058,467	47,006,661	1,227,000,000
1998-99	1,506,914,200	89.6	1,746,006,882	37,048,871	1,247,000,000
1999-00	1,528,359,100	88.6	1,801,929,058	55,105,409	1,275,000,000
2000-01	1,574,720,000	86.0 (est.)	1,795,180,800	49,474,444	1,392,000,000
2001-02	1,593,365,800	85.2 (est.)	1,752,702,380	32,155,050	N/A
2002-03	1,740,967,100	91.7 (est.)	1,885,467,369	61,056,347	N/A
2003-04	1,765,839,000	85.7 (est.)	1,912,403,637	35,487,014	N/A

(1) Source: Assessment/sales ratio for year 2000-01 thru 2003-04 are estimates made by the City.

(2) Source: Inspection Division, Department of Engineering, City of Danville.

(3) Source: Financial Institutions Data Exchange, University of Virginia.

CITY OF DANVILLE
SCHEDULE OF PRINCIPAL REAL ESTATE TAX PAYERS
2003-04 ASSESSED VALUES AS OF JUNE 30, 2004

	<u>Type of Business</u>	<u>Assessed Value</u>	<u>% of Total Assessed Value</u>
Dan River Inc.	Textile Manufacturing	\$ 47,480,400	2.69%
Goodyear Tire and Rubber Company	Tire Manufacturing	32,478,200	1.84%
General Development Co., Inc.	Commercial Leasing	23,369,000	1.32%
Piedmont Mall LLC	Retail Leasing	22,646,900	1.28%
Southern Processors, Inc.	Tobacco Processing	16,025,300	0.91%
Dibrell Brothers, Inc.	Tobacco Processing	11,618,400	0.66%
Nestle USA Inc.	Wholesale Food Processor	9,807,500	0.56%
MJRW Inc.	Retail Leasing	9,321,600	0.53%
Lorillard Tobacco Company	Tobacco Processing	8,755,200	0.50%
Wal-Mart Real Estate Business Trust	Retail Leasing	8,702,300	0.49%
Belk Stores of Virginia	Retail Leasing	7,443,800	0.42%
Medical Facilities of America XXII	Nursing Home Facilities	7,327,800	0.41%
Dan Shopping Center, Inc.	Retail Leasing	6,804,300	0.39%
Sears Roebuck and Co.	Retail Leasing	6,560,200	0.37%
Old 97, Inc.	Retail Leasing	6,435,000	0.36%
		<u>\$ 224,775,900</u>	<u>12.73%</u>

CITY OF DANVILLE

SCHEDULE OF ASSESSED PROPERTY VALUES

FOR THE LAST TEN YEARS

Fiscal Year	Assessed Value of Real Property (1)	Assessed Value of Personal Property (2)	Assessed Value of Machinery and Tools (2)	Assessed Value of Mobile Homes (2)	Assessed Value of Public Service Corp. (2)	Assessed Value of Aircraft (2)	Total Assessed Value
1994-95	\$ 1,194,367,700	\$ 174,887,175	\$ 74,371,194	\$ 4,446,248	\$ 49,815,038	\$ -	\$ 1,497,887,355
1995-96	1,217,567,100	209,806,680	76,454,724	4,831,153	46,970,708	-	1,555,630,365
1996-97	1,420,039,400	224,838,545	77,678,716	5,539,044	43,522,203	-	1,771,617,908
1997-98	1,449,210,900	228,470,573	71,928,832	5,863,314	50,132,687	-	1,805,606,306
1998-99	1,506,914,200	245,169,049	73,840,040	5,498,338	43,335,538	-	1,874,757,165
1999-00	1,528,359,100	260,131,562	77,644,461	5,310,500	52,557,772	-	1,924,003,395
2000-01	1,574,720,000	265,599,262	91,355,628	5,351,056	52,559,426	-	1,989,585,372
2001-02	1,593,365,800	260,503,705	93,412,803	5,207,888	51,751,357	2,429,800	2,006,671,353
2002-03	1,740,967,100	257,461,270	94,496,913	4,663,036	51,413,068	3,869,920	2,152,871,307
2003-04	1,765,839,000	246,282,106	97,002,334	5,055,627	54,285,263	5,165,235	2,173,629,565

(1) Assessed on a fiscal year basis.

(2) Assessed on a calendar year basis.

City of Danville
Schedule Of General Fund Revenues And Other Sources
For The Last Ten Years

<u>SOURCE</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Revenues										
General Property Taxes	\$ 16,154,196	\$ 16,960,875	\$ 17,957,517	\$ 18,785,954	\$ 20,453,283	\$ 19,965,645	\$ 19,453,031	\$ 19,346,304	\$ 24,045,407	\$ 23,289,443
Other Local Taxes	12,943,401	13,282,907	13,952,664	14,589,070	17,194,067	18,144,729	18,916,007	18,972,645	19,316,285	20,358,825
Permits, Privilege Fees, and Regulatory	152,429	227,720	208,323	201,598	217,132	201,467	208,934	189,514	221,100	189,405
Fines and Forfeitures	416,398	707,495	680,116	716,345	842,379	566,199	536,455	526,315	480,224	487,400
Revenues From Use of Money and Prop.	1,668,411	1,334,683	1,304,062	1,333,906	1,239,316	1,494,335	2,027,052	1,753,093	1,648,139	651,688
Charges and Services	3,006,719	2,801,803	3,188,912	3,276,103	3,015,196	3,498,572	4,251,374	4,827,539	4,573,521	3,555,551
Miscellaneous	396,330	409,855	1,031,750	438,685	429,603	491,948	113,279	87,827	62,259	58,097
Recovered Costs	1,647,589	1,750,270	2,066,779	2,352,554	2,575,405	2,416,615	2,585,748	3,368,935	3,688,855	4,129,121
Intergovernmental	11,687,881	12,424,525	13,871,525	14,566,549	15,415,028	19,080,376	21,149,256	21,796,478	18,468,572	20,744,275
Total Revenue	48,073,354	49,900,133	54,261,648	56,260,764	61,381,409	65,859,886	69,241,136	70,868,650	72,504,362	73,463,805
Other Sources										
Proceeds Long-term Cap.-Related Debt			773,177	601,337			41,525			8,647,271
Proceeds From Refunding Bonds Issued	350,000						10,842,434			23,490,000
Interest Income/Change in Market Value										
Operating Transfers In	11,227,423	10,521,006	10,698,109	10,863,543	11,586,137	11,078,332		10,787,473	10,765,091	11,035,895
Total Revenue and Other Sources	\$ 59,650,777	\$ 60,421,139	\$ 65,732,934	\$ 67,725,644	\$ 72,967,546	\$ 76,938,218	\$ 80,125,095	\$ 81,656,123	\$ 83,269,453	\$ 116,636,971

City Of Danville
Schedule Of General Fund Expenditures And Other Uses
For The Last Ten Years

<u>FUNCTION</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Expenditures										
General Government Administration	\$ 3,584,387	\$ 4,069,422	\$ 4,952,524	\$ 4,309,596	\$ 4,794,183	\$ 4,540,097	\$ 4,774,011	\$ 4,860,476	\$ 5,055,245	\$ 5,121,782
Judicial Administration	2,446,798	2,641,287	2,705,652	2,852,374	3,186,888	3,730,782	3,969,829	4,120,979	4,057,946	4,188,468
Public Safety	13,526,335	13,705,689	15,020,582	15,919,978	18,097,285	17,975,974	19,142,616	19,790,213	20,088,960	20,707,165
Public Works	6,486,977	7,019,771	7,773,797	7,538,708	7,373,750	7,589,539	8,564,507	8,541,164	9,484,587	9,225,555
Health and Welfare	4,680,543	4,864,001	5,397,702	5,841,979	6,515,013	6,537,230	6,973,647	7,299,722	7,346,039	7,749,689
Education	9,499	9,062	9,020	8,437	8,300	8,300	9,591	9,048	9,296	9,104
Parks and Recreation and Cultural	3,297,361	3,520,172	3,801,534	3,903,586	4,060,223	4,172,207	4,398,896	4,414,600	4,898,132	5,043,890
Community Development	311,172	351,257	363,600	338,474	386,785	463,017	702,660	801,509	959,301	1,007,444
Nondepartmental	1,055,074	1,565,837	2,116,473	2,408,743	1,623,659	1,411,473	2,613,717	3,030,177	4,320,956	3,356,058
Debt service										
Principal							4,086,282	2,981,288	4,429,139	3,812,362
Interest/Other charges							1,921,474	1,045,006	2,112,704	2,461,084
Total Expenditures	35,398,146	37,746,498	42,140,884	43,121,875	46,056,086	46,528,619	57,157,230	56,894,182	62,762,305	62,682,601
Other Uses										
Operating Transfers to Component Units	14,065,238	15,111,883	16,074,469	16,642,733	16,704,102	16,547,297	17,477,561	19,915,405	16,766,804	18,488,645
Operating Transfers Out	7,003,648	8,361,675	8,104,461	8,238,757	9,371,274	10,223,677	3,042,490	3,064,993	4,602,593	4,206,351
Payment to Bond Refunding Escrow Agent										32,147,294
Total Expenditures and Other Uses	\$ 56,467,032	\$ 61,220,056	\$ 66,319,814	\$ 68,003,365	\$ 72,131,462	\$ 73,299,593	\$ 77,677,281	\$ 79,874,580	\$ 84,131,702	\$ 117,524,891

City of Danville
General Government Revenues and Other Sources
For The Last Ten Years

<u>SOURCE</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Revenues										
General Property Taxes	\$ 16,154,196	\$ 16,960,875	\$ 17,957,517	\$ 18,785,954	\$ 20,453,283	\$ 19,965,645	\$ 19,453,031	\$ 19,346,304	\$ 24,045,407	\$ 23,289,443
Other Local Taxes	12,943,401	13,282,907	13,952,664	14,589,070	17,194,067	18,144,729	18,916,007	18,972,645	19,316,285	20,358,825
Permits & Privilege Fees and Regulatory	152,429	227,720	208,323	201,598	217,132	201,467	208,934	189,514	221,100	189,405
Fines and Forfeitures	416,398	707,495	680,116	716,345	842,379	566,199	536,455	526,315	480,224	487,400
Revenues From Use of Money and Property	1,670,294	1,334,683	1,304,062	1,581,933	1,453,863	1,721,660	2,736,538	2,311,815	1,826,965	678,063
Charges and Services	3,006,719	2,801,803	3,188,912	3,276,103	3,015,196	3,498,572	4,251,374	4,827,539	4,573,521	3,555,551
Miscellaneous	1,621,461	2,399,142	1,679,861	971,983	1,433,805	1,393,942	843,643	1,102,706	877,071	2,939,873
Recovered Costs	1,647,589	1,750,270	2,066,779	2,352,554	2,575,405	2,416,615	2,585,748	3,384,437	3,688,855	4,129,121
Intergovernmental	15,384,859	16,112,143	18,788,124	22,854,804	22,525,207	24,821,560	30,437,105	34,104,555	27,803,342	28,431,487
Perpetual Care							34,387			
Total Revenue	52,997,346	55,577,038	59,826,358	65,330,344	69,710,337	72,730,389	80,003,222	84,765,830	82,832,770	84,059,168
Other Sources										
Proceeds from Bonds and Capital Leases										
Proceeds of Long-term Capital-related Debt										
Interest Income/Change in Market Value										
Proceeds from Refunding Bonds Issued										
Operating Transfers In	11,227,423	10,521,006	10,698,109	10,863,543	11,586,137	20,836,539	13,523,636	10,263,909	15,238,926	23,490,000
							240,772	17,491,369		8,647,271
Total Revenue and Other Sources	\$ 67,074,769	\$ 67,798,044	\$ 72,597,644	\$ 93,396,102	\$ 82,031,438	\$ 103,566,928	\$ 103,767,630	\$ 126,303,877	\$ 98,071,696	\$ 131,282,772

City Of Danville
General Government Expenditures and Other Uses
For The Last Ten Years

<u>FUNCTION</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Expenditures										
General Government Administration	\$ 3,584,387	\$ 4,069,422	\$ 4,952,524	\$ 4,309,596	\$ 4,794,183	\$ 4,540,097	\$ 4,774,011	\$ 4,860,476	\$ 5,055,245	\$ 5,121,782
Judicial Administration	2,499,660	2,662,032	2,745,064	2,881,956	3,216,683	3,771,954	4,038,651	4,200,274	4,123,767	4,242,578
Public Safety	13,763,663	13,878,528	15,242,287	16,278,531	18,751,450	18,479,294	19,586,854	20,304,556	20,482,466	21,402,431
Public Works	6,569,014	7,078,718	7,903,626	7,631,639	7,440,673	7,643,195	8,695,353	8,697,285	9,553,828	9,298,498
Health and Welfare	5,593,802	5,682,588	6,385,849	7,042,577	7,587,496	7,633,379	7,956,954	9,059,091	9,690,249	10,483,034
Education	9,499	9,062	9,020	8,437	8,300	8,300	9,591	9,048	9,296	9,104
Parks and Recreation and Cultural	3,619,878	3,838,938	4,125,944	4,227,739	4,444,792	4,535,493	4,776,271	4,807,819	5,249,673	5,509,938
Community Development	3,288,396	3,550,581	2,067,429	2,560,330	4,563,235	5,315,187	3,779,514	3,382,732	3,410,345	3,937,381
Nondepartmental	1,055,074	1,585,837	2,116,473	2,408,743	1,623,659	1,411,474	2,613,717	3,030,177	4,320,956	3,356,058
Capital Outlay	3,526,956	5,822,718	6,270,216	11,146,272	6,926,280	6,588,293	13,344,462	12,161,856	10,482,809	11,061,055
Debt Service	4,643,318	4,523,393	4,659,752	5,670,111	5,966,679	6,406,907	6,647,603	4,026,294	6,541,843	6,273,446
Total Expenditures	48,153,647	52,681,817	56,478,184	64,165,931	65,323,430	66,333,573	76,222,981	74,539,608	78,920,477	80,695,305
Other Uses										
Operating Transfers to Component Units	22,595,921	17,408,124	16,116,887	16,930,575	16,948,347	17,237,155	17,477,561	31,794,851	16,766,804	19,444,140
Operating Transfers Out	848,851	1,053,466	677,603	726,838	1,170,749	10,223,677	6,499,659	3,166,571	5,121,837	4,206,351
Payment to Refund Bond Escrow Agent				3,932,006				23,263,909		32,147,294
Total Expenditures and Other Uses	\$ 71,598,419	\$ 71,143,407	\$ 73,272,674	\$ 85,755,350	\$ 83,442,526	\$ 93,794,405	\$ 100,200,201	\$ 132,764,939	\$ 100,809,118	\$ 136,493,090

CITY OF DANVILLE
DEMOGRAPHIC STATISTICS
FOR THE LAST TEN YEARS

Year	Population	Per Capita Income	Median Age	% of Population with Bachelor's Degree or Higher	School Enrollment	% Unemp- Rate
(1)	(2)	(3)	(4)	(5)	(6)	
1995	52,800	17,721	39.2	N/A	8,299	9.10
1996	52,300	18,116	39.4	N/A	8,148	9.80
1997	52,300	19,046	39.7	N/A	8,308	10.10
1998	51,700	19,982	40.0	N/A	8,270	8.50
1999	50,100	19,936	N/A	N/A	8,130	7.40
2000	48,411	21,280	34.5	N/A	7,691	6.80
2001	48,411 est.	21,280	40.5	N/A	7,659	7.70
2002	48,411 est.	21,280 est.	40.5 est.	N/A	N/A	9.60
2003	48,411 est.	21,280 est.	40.1	5.3	7,668	10.90
2004	46,600 est.	21,280 est.	40.5	13.9	7,232	12.30

(1) Source: 1995 through 1999, Weldon Cooper Center for Public Services, University of Virginia.
2000 from U.S. Bureau of Census.
2001-2004, Weldon Cooper Center for Public Services, University of Virginia.

(2) Source: Weldon Cooper Center for Public Service, University of Virginia.
Data includes both the City of Danville and Pittsylvania County.

(3) Source: Weldon Cooper Center for Public Service, University of Virginia.
2004 from U.S. Bureau of Census.

(4) Source: 2000 U.S. Census Bureau. Profile of Selected Social characteristics.
Percent based on population 25 years and over.

(5) Source: 1994 through 2000, Danville City Schools.
2001-2003 through National Center for Education Statistics.
2004 through Weldon Cooper Center for Public Services, University of Virginia.
Includes Grades PK-12.

(6) Source: Virginia Employment Commission, through June 2004.

CITY OF DANVILLE

WASTEWATER SYSTEM

SUMMARY OF OPERATING REVENUE FOR THE LAST TEN YEARS

Year Ended June 30	Number of Customers	Sales		Other Operating Revenue	Total Operating Revenue
		Cubic Feet (1)	Amount		
1995	16,921	567,823,247	\$ 6,549,022	\$ 94,249	\$ 6,643,271
1996	16,841	546,855,880	6,566,498	110,111	6,676,609
1997	16,883	521,873,687	7,218,882	127,646	7,346,528
1998	16,853	503,971,407	7,490,342	122,776	7,613,118
1999	16,837	474,365,595	7,056,280	118,960	7,175,240
2000	16,944	469,659,507	7,353,389	163,329	7,516,718
2001	16,803	498,206,347	7,521,217	133,419	7,654,636
2002	16,859	481,723,733	7,039,433	227,788	7,267,221
2003	16,795	476,406,533	6,833,374	176,203	7,009,577
2004	16,825	390,926,667	6,467,763	450,739	6,918,502

CITY OF DANVILLE

WASTEWATER SYSTEM

SUMMARY OF OPERATIONS FOR THE LAST TEN YEARS

Year Ended June 30	Operating Revenue	Operating Expenses	Net Operating Revenue (Loss)	Other Income (Deductions)	Net Income (Loss)
1995	\$ 6,643,271	\$ 5,250,582	\$ 1,392,689	\$ (529,634)	\$ 863,055
1996	6,676,609	5,249,095	1,427,514	(815,250)	612,264
1997	7,346,528	5,826,530	1,519,998	(658,389)	861,609
1998	7,613,118	5,753,638	1,859,480	(1,025,529)	833,951
1999	7,175,240	4,992,104	2,183,136	(777,591)	1,405,545
2000	7,516,719	4,890,031	2,626,688	(969,646)	1,657,042
2001	7,654,636	5,127,663	2,526,973	(739,602)	1,787,371
2002	7,267,221	5,219,168	2,048,053	(755,990)	1,292,063
2003	7,009,577	5,366,850	1,642,727	(725,826)	916,901
2004	6,918,502	5,432,649	1,485,853	(852,232)	633,621

(1) The City does not have meters installed at customer locations to measure the flow of wastewater except for Dan River, Inc. and Pittsylvania County Service Authority where charges are made pursuant to specific contracts. With few exceptions, customers who do not have specific contracts receive both water and wastewater services and charges are based upon consumption registered on the water meter. City Council, by ordinance allocated 56% of jointly billed water and wastewater charges to the Wastewater System and the remaining 44% to the Water System.

CITY OF DANVILLE

WATER SYSTEM

SUMMARY OF OPERATING REVENUE FOR THE LAST TEN YEARS

Year Ended June 30	Number of Customers	Sales		Other Operating Revenue	Total Operating Revenue
		Cubic Feet	Amount		
1995	18,126	375,810,666	\$ 4,517,421	\$ 24,545	\$ 4,541,966
1996	18,067	378,433,333	4,605,625	25,200	4,630,825
1997	18,112	362,948,000	5,129,584	20,489	5,150,073
1998	18,074	368,044,000	5,366,010	24,574	5,390,584
1999	18,079	350,741,900	5,516,912	42,568	5,559,480
2000	18,041	337,583,200	5,503,664	38,139	5,541,803
2001	17,990	320,176,500	5,464,491	92,787	5,557,278
2002	18,055	326,943,100	5,549,316	52,482	5,601,798
2003	17,954	306,803,200	5,335,093	53,851	5,388,944
2004	17,949	293,194,300	5,162,681	61,186	5,223,867

CITY OF DANVILLE

WATER SYSTEM

SUMMARY OF OPERATIONS FOR THE LAST TEN YEARS

Year Ended June 30	Operating Revenue	Operating Expenses	Net Operating Revenue (Loss)	Other Income (Deductions)	Net Income (Loss)
1995	\$ 4,541,966	\$ 2,829,473	\$ 1,712,493	\$ (556,682)	\$ 1,155,811
1996	4,630,825	2,805,191	1,825,634	(498,026)	1,327,608
1997	5,150,073	3,023,003	2,127,070	(490,640)	1,636,430
1998	5,390,584	3,099,766	2,290,818	(556,032)	1,734,786
1999	5,559,480	3,157,736	2,401,744	(344,078)	2,057,666
2000	5,541,802	3,479,220	2,062,582	(296,658)	1,765,924
2001	5,557,279	3,514,932	2,042,347	(232,562)	1,809,785
2002	5,601,798	3,845,093	1,756,705	(334,269)	1,422,436
2003	5,388,944	3,557,901	1,831,043	(443,721)	1,387,322
2004	5,223,867	3,595,124	1,628,743	(541,237)	1,087,506

CITY OF DANVILLE

GAS SYSTEM

SUMMARY OF OPERATING REVENUE FOR THE LAST TEN YEARS

Year Ended June 30	Number of Customers	Sales		Other Operating Revenue	Total Operating Revenue
		Dekatherms	Amount		
1995	16,408	5,991,943	\$ 18,694,189	\$ 53,930	\$ 18,748,119
1996	16,366	7,075,725	26,476,322	90,779	26,567,101
1997	16,429	7,100,215	23,484,220	70,683	23,554,903
1998	16,417	6,770,185	23,252,399	76,266	23,328,665
1999	16,537	6,938,553	22,372,213	154,918	22,527,131
2000	16,565	7,625,324	26,006,986	90,991	26,097,977
2001	16,527	7,728,601	41,814,741	127,135	41,941,876
2002	16,440	6,923,969	27,413,738	95,875	27,509,613
2003	16,432	5,457,391	29,918,481	110,671	30,029,152
2004	16,284	3,821,326	25,907,110	92,361	25,999,471

CITY OF DANVILLE

GAS SYSTEM

SUMMARY OF OPERATIONS FOR THE LAST TEN YEARS

Year Ended June 30	Operating Revenue	Operating Expenses	Net Operating Revenue	Other Income (Deductions)	Net Income
1995	\$ 18,748,119	\$ 15,320,571	\$ 3,427,548	\$ 287,367	\$ 3,714,915
1996	26,567,101	21,328,265	5,238,836	298,551	5,537,387
1997	23,554,903	19,568,634	3,986,269	366,692	4,352,961
1998	23,328,665	19,198,027	4,130,638	413,246	4,543,884
1999	22,217,295	18,581,439	3,635,856	1,246,717	4,882,573
2000	26,097,977	23,362,465	2,735,512	421,813	3,157,325
2001	41,941,876	37,858,709	4,083,167	1,290,601	5,373,768
2002	27,509,613	25,322,265	2,187,348	446,687	2,634,035
2003	30,029,152	26,920,162	3,108,990	1,148,363	4,257,353
2004	25,999,471	22,555,070	3,444,401	135,557	3,579,958

CITY OF DANVILLE
POWER AND LIGHT SYSTEM

SUMMARY OF OPERATING REVENUE FOR THE LAST TEN YEARS

<u>Year Ended June 30</u>	<u>Number of Customers</u>	<u>Sales</u>		<u>Other Operating Revenue</u>	<u>Total Operating Revenue</u>
		<u>KWH</u>	<u>Amount</u>		
1995	46,769	798,490,897	\$ 42,857,304	\$ 296,642	\$ 43,153,946
1996	46,910	865,262,905	46,854,524	487,627	47,342,151
1997	47,572	871,119,546	46,770,583	525,198	47,295,781
1998	47,862	900,297,083	48,574,311	499,556	49,073,867
1999	48,237	920,072,462	50,262,715	461,604	50,724,319
2000	48,707	942,938,761	51,396,944	488,704	51,885,648
2001	48,718	947,694,220	51,447,557	451,736	51,899,293
2002	49,057	958,666,775	51,277,269	495,281	51,772,550
2003	48,961	1,006,430,485	54,265,090	528,862	54,793,952
2004	49,075	1,007,329,001	54,951,676	539,583	55,491,259

CITY OF DANVILLE
POWER AND LIGHT SYSTEM

SUMMARY OF OPERATIONS FOR THE LAST TEN YEARS

<u>Year Ended June 30</u>	<u>Operating Revenue</u>	<u>Operating Expenses</u>	<u>Net Operating Revenue</u>	<u>Other Income (Deductions)</u>	<u>Net Income</u>
1995	\$ 43,153,946	\$ 33,659,025	\$ 9,494,921	\$ 169,945	\$ 9,664,866
1996	47,342,151	37,064,799	10,277,352	183,909	10,461,261
1997	47,295,781	36,618,129	10,677,652	432,848	11,110,500
1998	49,073,867	38,530,930	10,542,937	270,851	10,813,788
1999	50,724,319	36,555,212	14,169,107	5,624,213	19,793,320
2000	51,885,648	36,804,127	15,081,521	3,502,544	18,584,065
2001	51,899,293	36,616,553	15,282,740	2,515,493	17,798,233
2002	51,772,550	37,212,477	14,560,073	852,385	15,412,458
2003	54,793,952	38,334,810	16,459,142	1,121,534	17,580,676
2004	55,491,259	39,540,282	15,950,977	97,002	16,047,979

CITY OF DANVILLE

WATER SYSTEM

DISTRIBUTION SYSTEM STATISTICS FOR THE LAST TEN YEARS

<u>Year Ended June 30</u>	<u>Meters</u>	<u>Output (Gallons)</u>	<u>Miles of Mains</u>	<u>Fire Hydrants</u>
1995	18,657	2,818,579,995	302.87	1,796
1996	18,686	2,838,249,998	297.91	1,807
1997	18,726	2,722,110,000	300.02	1,820
1998	18,726	2,760,330,000	302.56	1,836
1999	18,758	3,059,920,000	303.25	1,857
2000	18,746	2,952,500,000	307.27	1,878
2001	18,763	2,690,320,000	308.52	1,889
2002	18,781	2,821,510,000	309.39	1,902
2003	18,840	2,878,730,000	310.11	1,909
2004	18,840	2,752,750,000	311.99	1,930

CITY OF DANVILLE

GAS SYSTEM

DISTRIBUTION SYSTEM STATISTICS FOR THE LAST TEN YEARS

<u>Year Ended June 30</u>	<u>Meters</u>	<u>Output (Dekatherms)</u>	<u>Miles of Mains</u>	<u>Drips</u>
1995	17,208	5,991,943	297.21	324
1996	17,320	7,085,725	293.65	324
1997	17,361	7,153,676	299.14	324
1998	17,416	6,770,185	304.64	323
1999	17,506	6,938,553	306.14	321
2000	17,511	7,625,324	309.56	321
2001	17,500	7,728,601	311.33	316
2002	17,462	6,923,969	312.45	299
2003	17,463	5,457,391	314.15	299
2004	17,453	3,821,326	315.85	302

CITY OF DANVILLE
WATER AND GAS SYSTEMS
DISTRIBUTION STATISTICS - LENGTH OF PIPE
JUNE 30, 2004

<u>Size Inches</u>	<u>Water (Feet)</u>	<u>Gas (Feet)</u>
2" or less	85,181	531,187
over 2" thru 4"	42,236	462,306
over 4" thru 8"	1,070,250	510,964
over 8" thru 12"	342,061	161,978
over 12"	<u>107,603</u>	<u>1,258</u>
Total Feet	<u>1,647,331</u>	<u>1,667,693</u>
Total Miles	<u>311.99</u>	<u>315.85</u>

CITY OF DANVILLE

POWER AND LIGHT SYSTEM

DISTRIBUTION SYSTEM STATISTICS FOR THE LAST TEN YEARS

Year Ended June 30	Net KWH Generated	KWH Purchased	KWH Peak	Meters	Transformers	Street Lights
1995	17,039,980	826,010,513	179,360	41,433	16,037	8,514
1996	26,768,100	915,894,096	207,800	41,476	16,337	8,540
1997	37,279,760	894,616,341	195,600	41,852	16,615	8,562
1998	21,466,800	940,057,956	210,400	42,139	16,317	8,462
1999	14,845,700	968,575,112	219,846	42,033	16,683	8,541
2000	20,222,600	999,700,400	216,600	42,436	17,377	8,578
2001	13,601,150	996,978,864	217,400	42,457	17,696	8,378
2002	14,286,922	985,023,960	212,400	42,708	18,144	8,394
2003	28,854,300	1,038,535,848	235,800	42,639	18,240	8,407
2004	30,930,800	946,546,228	211,600	43,008	18,183	8,477

Year Ended June 30	Primary Wire (Feet)	Secondary Wire (Feet)	Services Wire (Feet)	Street Light Circuits Wire (Feet)	Number of Poles	Rural Lines (Miles)
1995	19,731,449	10,701,766	19,614,392	1,413,752	52,053	1,307.3
1996	19,795,267	10,700,266	19,661,512	1,415,252	52,843	1,317.0
1997	19,882,800	10,704,643	19,693,372	1,415,852	53,312	1,312.0
1998	19,998,623	10,710,434	19,727,902	1,416,450	54,110	1,329.5
1999	20,130,027	10,656,882	19,815,052	1,416,450	54,665	1,351.9
2000	20,293,316	10,443,744	19,936,082	1,417,265	55,347	1,378.9
2001	20,393,478	10,130,432	20,015,442	1,417,265	48,536	1,397.9
2002	20,493,640	9,978,476	20,087,202	1,417,265	48,968	1,416.9
2003	20,626,036	8,980,628	20,109,582	1,423,215	49,337	1,439.5
2004	20,714,771	8,973,628	20,137,362	1,425,315	49,891	1,455.8

CITY OF DANVILLE

**SCHEDULE OF INSURANCE COVERAGE
(Excluding Danville Public Schools)
June 30, 2004**

Description	<u>Base Coverage</u>	<u>Umbrella</u>	<u>Total Amount of Insurance</u>
Property Insurance			
All risk coverage for City owned buildings and contents (\$10,000 deductible)	\$ 150,000,000		\$ 150,000,000
Flood (\$100,000 deductible)	5,000,000		5,000,000
Earthquake (\$100,000 deductible)	5,000,000		5,000,000
Contractors equipment valued over \$10,000			Actual Cash Value
Electronic Data Processing	6,000,000		6,000,000
Boiler and Machinery - per accident limit	10,000,000		10,000,000
Fleet Insurance (1)			
Liability	1,000,000	10,000,000	11,000,000
Comprehensive and collision on vehicles valued over \$100,000			Actual Cash Value
The City is self-insured on vehicles valued under \$100,000			
Comprehensive General Liability (1)			
Each occurrence	1,000,000	10,000,000	11,000,000
Aggregate	2,000,000	10,000,000	12,000,000
Public Officials Liability (1)	1,000,000	10,000,000	11,000,000
Law Enforcement (1)	1,000,000	10,000,000	11,000,000
Fidelity Bonds			
Honesty Blanket Bond - Police officers	25,000		25,000
Faithful Performance Blanket Bond - All employees except police officers	500,000		500,000
Position Bonds - Treasurer, Director of Central Collections, and Director of Social Services	100,000		100,000
Money and Securities	500,000		500,000
Airport			
Bodily injury and property damage	20,000,000		20,000,000
Hangarkeepers' Liability	5,000,000		5,000,000
Fiduciary Liability - Employees' Retirement System	5,000,000		5,000,000
Workers' Compensation			Self-Insured
Public Officials Position Bonds (State provided)			
Treasurer	500,000		500,000
Commissioner of Revenue	3,000		3,000
Clerk of Circuit Court	103,000		103,000
Sheriff	30,000		30,000

NOTE: This schedule reflects information taken from the policies and pool agreements and does not purport to show all details of the Coverage or the adequacy thereof.

(1) Coverage is through the Virginia Municipal Liability Pool

CITY OF DANVILLE

**DANVILLE PUBLIC SCHOOLS
SCHEDULE OF INSURANCE COVERAGE
June 30, 2004**

<u>Description</u>	<u>Amount of Insurance</u>
Package Policy:	
"All risk" of direct physical loss, subject to policy terms and conditions, 90% coinsurance, \$1,000 deductible, replacement cost coverage for buildings and contents, actual cash value for other items:	
Blanket - real and personal property	\$ 187,968,960
New buildings	1,000,000
In-transit	100,000
Comprehensive General Liability	
General aggregate limit	2,000,000
Personal injury, each occurrence	1,000,000
Medical payments per person	10,000
Fire legal liability, per occurrence	100,000
Business Automobile	
Bodily injury, property damage, and uninsured motorist	1,000,000
Medical payments per person	5,000
Uninsured motorists	1,000,000
Comprehensive, specific perils, and collision	1,000,000
Position Bonds	
Clerk of the Board	25,000
Deputy Clerk of the Board	25,000
Manager, Textbook Rental System	25,000
School Board Legal Liability	
Errors and omissions, defense costs (\$10,000 deductible)	2,000,000
Crime Coverage - All Locations	
Public school employee dishonesty coverage	25,000
Forgery or alteration	25,000
Theft, reappearance, and destruction	3,000
Umbrella Liability	
General and projects/completed operations; aggregate per occurrence limit	5,000,000
Workers' Compensation	500,000
Vocational students	
Real or alleged medical incidents	1,000,000
Employee benefits	1,000,000
Garage Policy	1,000,000

NOTE: The above insurance coverage is presented as additional information only and was not confirmed with the insurance carriers.

**CITY OF DANVILLE
MISCELLANEOUS STATISTICS**

Date of Incorporation	1830
Form of Government	Council/Manager
Area in Square Miles	44
Number of Employees (Full & Part-Time)	1,240
Name of Government Facilities and Services:	
Miles of streets	314
Number of street lights	8,477
Culture and Recreation:	
Recreation centers	12
Number of parks/acreage	9 / 344 Acres
Number of trails/miles	11 / 10 Miles
Number of athletic fields/acreage	23 / 45 Acres
Number of playgrounds/acreage	24 / 88 Acres
Number of outdoor basketball courts	10
Number of tennis courts	19
Fire Protection:	
Number of stations	7
Number of fire personnel and officers	123
Number of calls answered	4,648
Number of inspections conducted	2,542
Police Protection:	
Number of stations	3
Number of police officers	139
Number of patrol units	12
Number of law violations:	
Physical arrests	6,339
Traffic violations	6,481
Parking violations	1,831
Sewerage System:	
Miles of sanitary sewers	384
Number of treatment plants	1
Number of service connections	17,302
Daily average treatment in gallons	13.57MG
Maximum daily capacity of treatment plant in gallons	24 MGD
Water System:	
Miles of water mains	311.99
Active number of service connections	17,949
Number of fire hydrants	1,930
Daily average consumption in gallons	7.54MGD
Maximum daily capacity of treatment plant in gallons	18 MGD
Electric Distribution System:	
Miles of service	500 Sq. Miles
Number of distribution stations	16
Facilities and services not included in the primary government:	
Education:	
Number of elementary schools	10
Number of middle schools	3
Number of high schools	2
Number of alternative schools	1
Number of elementary school instructors	271
Number of middle school instructors	136
Number of high school instructors	202
Facilities and services not included in the reporting entity:	
Hospitals:	
Number of hospitals	1
Number of patient beds	350



SINGLE AUDIT



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***Report On Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards***

The Honorable Mayor and Members of City Council
City of Danville, Virginia

We have audited the financial statements of the **City of Danville, Virginia** as of and for the year ended June 30, 2004, and have issued our report thereon dated September 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **City of Danville, Virginia's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the Board of Directors in a separate letter dated September 16, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **City of Danville, Virginia's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the City Council, management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Goodman & Company, LLP

Danville, Virginia
September 16, 2004

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Certified Public Accountants
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***Report on Compliance With
Requirements Applicable to Each Major Program and
Internal Control Over Compliance in Accordance
With OMB Circular A-133***

The Honorable Mayor and Members of City Council
City of Danville, Virginia

Compliance

We have audited the compliance of the **City of Danville, Virginia** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City of Danville's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the management of the City of Danville. Our responsibility is to express an opinion on the City of Danville's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Danville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Danville's compliance with those requirements.

In our opinion, the City of Danville complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

Management of the City of Danville is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Danville's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud

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that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to the City Counsel of Danville, Virginia in a separate letter dated September 16, 2004.

This report is intended solely for the information of City Council, management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Goodman & Company, LLP

Danville, Virginia
September 16, 2004



Certified Public Accountants
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***Report on Compliance With Commonwealth of
Virginia's Laws, Regulations, Contracts and Grants***

To The Honorable Mayor and Members of City Council
City of Danville, Virginia

We have audited the basic financial statements of the ***City of Danville, Virginia***, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 16, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

Compliance with Commonwealth of Virginia's laws, regulations, contracts, and grants applicable to the ***City of Danville, Virginia***, is the responsibility of the City's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts and grants. However, the objective of our audit of the general-purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The following is a summary of the Commonwealth of Virginia's laws, regulations, contracts, and grants for which we performed tests of compliance:

Code of Virginia

- Budget and Appropriation Laws
- Cash and Investments
- Conflicts of Interest
- Retirement Systems
- Debt Provisions
- Procurement
- Unclaimed Property
- Enhanced 911 Services Tax
- Personal Property Tax Relief Act

State Agency Requirements

- Social Services
- Education
- Comprehensive Services Act Funds
- Highway Maintenance Funds
- Economic Development Opportunity Fund

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The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the City had not complied, in all material respects, with those provisions.

This report is intended solely for the information of City Council, management, the Auditor of Public Accounts and applicable state agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

Goodman & Company, LLP

Danville, Virginia
September 16, 2004

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2004

Grantor/Pass - Through Grantor/Program Title	Federal Catalog Number	Federal Expenditures
<u>CITY OF DANVILLE</u>		
DEPARTMENT OF AGRICULTURE		
Department of Social Services:		
Food stamps	* 10.551	\$ 415,746
State administrative matching grants for food stamp program	* 10.561	176,635
Department of Juvenile Justice		
School program	10.555	68,401
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct payments:		
Community development block grant program and entitlement grants	* 14.218	1,775,264
Housing assistance services	unknown	7,833
HOME investment partnership program	14.239	813,805
DEPARTMENT OF JUSTICE		
Direct payments:		
Crime victim assistance	16.575	89,243
Community oriented policing	16.579	7,557
DEPARTMENT OF TRANSPORTATION		
Direct payments:		
Hazardous Materials Preparedness Program	20.000	22,738
Airport improvements	20.600	9,810
FEDERAL EMERGENCY MANAGEMENT AGENCY		
Department of Emergency Services		
Emergency Management Preparedness Grant	* 83.544	591,430
Emergency Management Preparedness Grant	97.042	25,476
Citizens Corps	97.054	5,175
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Southern Area Agency on Aging:		
Special programs for the aging, Title III-D grants	93.043	\$ 3,599
Special programs for the aging, Title III-B grants	93.044	31,212
Department of Social Services:		
Temporary assistance for needy families	* 93.558	649,222
Low income energy assistance	93.568	36,133
Child care and development block grant	93.575	353,707
Refugee and entrant assistance	93.566	861
Department of Social Services:		
Child care and development fund	93.596	507,583
Foster care - Title IV-E	* 93.658	683,075
Adoption assistance	93.659	258,315
Social services block grant	93.667	504,083

(Continued on next page)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2004

Grantor/Pass - Through Grantor/Program Title	Federal Catalog Number	Federal Expenditures ^c
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Medicaid assistance program-Administrative expenses only	*	93.778
Department of Mental Health, Mental Retardation, and Substance Abuse:		354,046
Part C funds	84.181	164,491
Cooperative agreements for state treatment, outcomes, and performance pilot studies	93.230	79,105
Family preservation and support	93.556	2,222
Block grants for community mental health services	93.958	97,200
Block grants for prevention and treatment of substance abuse	93.959	740,128
Total assistance - City of Danville		\$ 8,474,095
<u>DANVILLE PUBLIC SCHOOLS</u>		
DEPARTMENT OF AGRICULTURE		
Department of Education:		
School breakfast program	10.553	\$ 404,395
National school lunch program	10.555	1,528,125
Department of Agriculture and Consumer Services		
Food distribution - donated commodities	10.555	190,676
DEPARTMENT OF EDUCATION		
Department of Education:		
Adult education - state administered basic grant program	84.002	246,510
Title I grants to local education agencies	84.010	2,497,117
Special education - grants to states	84.027	1,589,204
Vocational education - consumer and homemaking education	*	84.048
Magnet schools assistance	84.165	244,133
Special education - preschool grants	84.173	2,510,684
Safe and drug - free schools - state grants	84.186	54,079
Comprehensive school reform	*	84.186
Even start - state educational agency	84.332	75,131
Eisenhower professional development	84.213	161,043
Title IV innovative education program	84.281	199,271
Technology literacy challenge grant	84.298	52,075
Reading excellence program	84.318	73,726
Title I accountability grant	84.338	80,968
School renovation grants	84.348	157,767
Improving teacher quality state grants	84.352	108,367
	84.367	571,405
		370,181

(Continued on next page)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2004

Grantor/Pass - Through Grantor/Program Title	Federal Catalog Number	Federal Expenditures
OTHER FEDERAL PAYMENTS		
Department of the Navy		
Naval junior ROTC	11.UNK	52,635
Department of Labor		
School to work transition	17.261	44,703
Department of Health and Human Services		
Refugee & Entrant Assistance	93.576	2,187
Total assistance - Danville Public Schools		\$ 11,214,382
Total assistance - reporting entity		\$ 19,688,477

* Denotes Major Program

CITY OF DANVILLE, VIRGINIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2004

Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Benefit payments are paid directly to recipients and are not included in the City's basic financial statements. However, due to the City's involvement in determining eligibility, they are considered federal awards to the City and are included on this schedule.

Federal Cognizant Agency

The Federal Cognizant Agency for the City of Danville, Virginia is the United States Department of Health and Human Services.

Subrecipients

The City provided the following amounts to subrecipients during FY 2004:

Program Title	CFDA	Amount
Special Programs for the Aging- Title III-F	93.043	\$ 3,599
Special Programs for the Aging- Title III-B	93.044	31,212

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2004

Summary of Auditor's Results:

Financial Statements

The type of report issued on the financial statements: Unqualified

Internal control over financial reporting

- Material weaknesses identified: None
- No reportable conditions identified in internal control to disclose

Noncompliance material to the financial statements noted: None

Federal Awards

Internal control over major programs

- Material weaknesses identified: None reported
- No reportable conditions identified in internal control over major programs to disclose

The type of report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of

OMB Circular A -133: No

Major programs:

- CDBG program and entitlement grants (14.218)
- Food Stamp Cluster (10.551 & 10.561)
- Vocational education – consumer and homemaking education (84.048)
- Comprehensive School Reform (84.332)
- Emergency Management Preparedness Grant (83.544)
- Medicaid assistance program (93.778)
- Foster Care (93.658)
- Temporary Assistance for Needy Families (93.558)

Dollar threshold used to distinguish between Type A and Type B programs: \$590,654

Auditee qualified as a low-risk auditee under section 530 of OMB Circular A -133?: Yes

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CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2004

**FINDINGS RELATING TO THE BASIC FINANCIAL STATEMENTS WHICH ARE REQUIRED TO
BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL
AUDITING STANDARDS**

NONE

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

No findings reported in the prior year.